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Committee Meeting: 2/6/2008

Robert B. Rowling, *Chairman*
John W. Barnhill, Jr.
Robert A. Estrada
Paul Foster

Board Meeting: 2/7/2008
Edinburg, Texas

	Committee Meeting	Board Meeting	Page
A. CONVENE MEETING OF FINANCE AND PLANNING COMMITTEE	<i>5:15 p.m.</i> <i>Chairman</i> <i>Rowling</i>		
1. U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 133</i>	<i>5:15 p.m.</i> Discussion <i>Dr. Kelley</i>	Action	82
2. U. T. System: Key Financial Indicators Report and Monthly Financial Report	<i>5:20 p.m.</i> Report <i>Dr. Kelley</i>	Not on Agenda	82
3. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2007	<i>5:23 p.m.</i> Report <i>Mr. Wallace</i>	Not on Agenda	91
4. U. T. System: Approval of the Fiscal Year 2009 Operating Budget Preparation Policies and Calendar	<i>5:26 p.m.</i> Action <i>Mr. Wallace</i>	Action	91
5. U. T. System: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended November 30, 2007	<i>5:29 p.m.</i> Report <i>Mr. Zimmerman</i>	Report	95
6. U. T. System Board of Regents: Approval of amendments to The University of Texas Investment Management Company (UTIMCO) Bylaws	<i>5:37 p.m.</i> Action <i>Mr. Zimmerman</i>	Action	101
7. U. T. System Board of Regents: Approval of revised Master Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO)	<i>5:40 p.m.</i> Action <i>Dr. Kelley</i>	Action	115

	Committee Meeting	Board Meeting	Page
8. U. T. System Board of Regents: Adoption of Nineteenth Supplemental Resolution authorizing Revenue Financing System Bonds in an amount not to exceed \$950,000,000; authorization to complete all related transactions; and resolution regarding parity debt	<i>5:43 p.m.</i> Action <i>Mr. Aldridge</i>	Action	134
9. U. T. System: Adoption of Resolution to Zurich American Insurance Company and affiliates, Schaumburg, Illinois, to guarantee payments under Phase V of The University of Texas System's Rolling Owner Controlled Insurance Program (ROCIP)	<i>5:46 p.m.</i> Action <i>Mr. Dendy</i>	Action	136
10. U. T. System: Report on the Supply Chain Alliance Strategic Initiative	<i>5:51 p.m.</i> Report <i>Dr. Kelley</i> <i>Mr. St. Onge</i>	Not on Agenda	138
B. ADJOURN			
C. CONVENE JOINT MEETING WITH AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE			
	<i>6:00 p.m.</i> <i>Chairmen</i> <i>Rowling and</i> <i>Estrada</i>		
11. U. T. System: Report on the Fiscal Year 2007 Annual Financial Report, including the report on the U. T. System Financial Statement audit work performed by institutional and U. T. System Administration internal audit	<i>6:00 p.m.</i> Report <i>Mr. Wallace</i> <i>Mr. Chaffin</i>	Not on Agenda	139
D. ADJOURN JOINT MEETING			
	<i>6:15 p.m.</i>		

- A. CONVENE MEETING OF FINANCE AND PLANNING COMMITTEE
- 1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 133**

RECOMMENDATION

It is recommended that *Docket No. 133*, beginning on Page Docket - 1, be approved.

It is also recommended that the Board confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

Supplemental Materials: Green pages following the Docket tab at the back of Volume 2.

- 2. **U. T. System: Key Financial Indicators Report and Monthly Financial Report**

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 83 - 90 that follow, and the December Monthly Financial Report. The reports represent the consolidated and individual operating results of the U. T. System institutions.

REPORT

The Key Financial Indicators Report compares the System-wide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2004 through November 2008. Ratios requiring balance sheet data are provided for Fiscal Year 2003 through Fiscal Year 2007.

The Monthly Financial Report is provided as support for the Key Financial Indicators. The Report includes the detailed numbers behind the Operating Margin by Institution graph as well as detail for each individual institution as of December 2007.

Supplemental Materials: December Monthly Financial Report on Pages 57 - 81 of Volume 2.

THE UNIVERSITY OF TEXAS SYSTEM



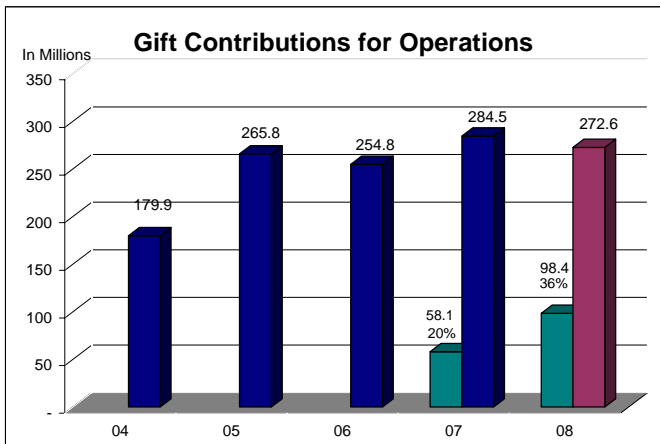
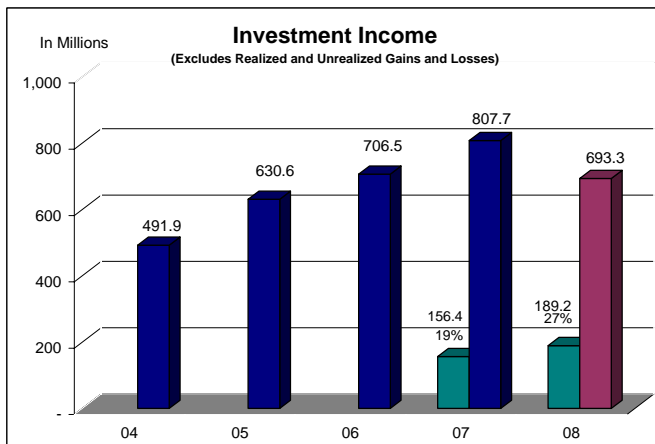
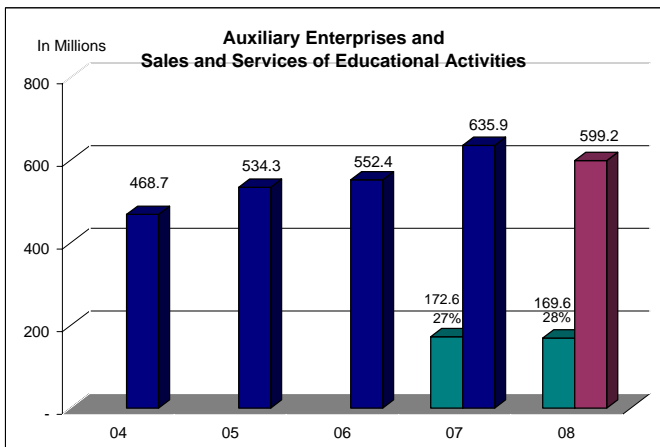
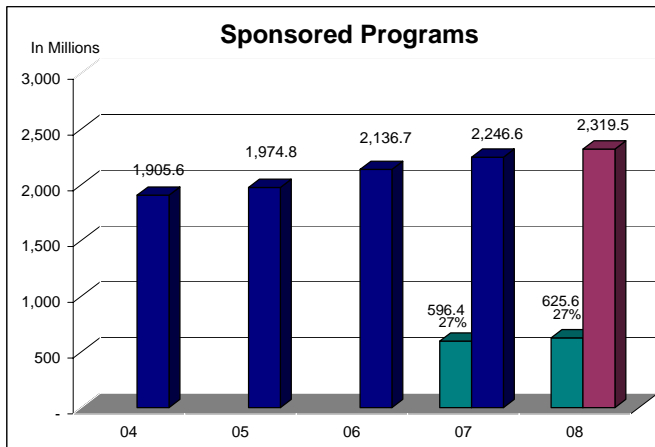
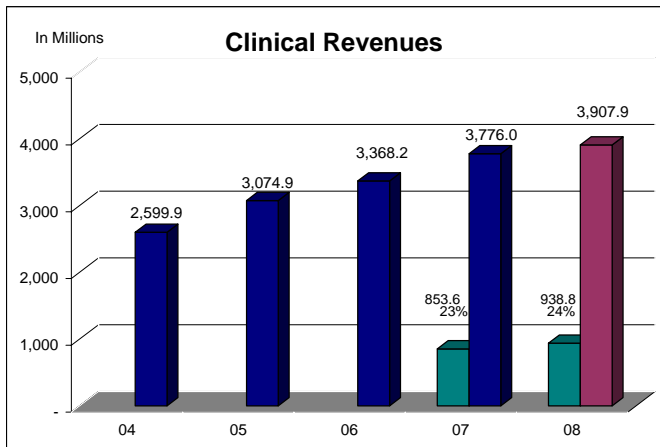
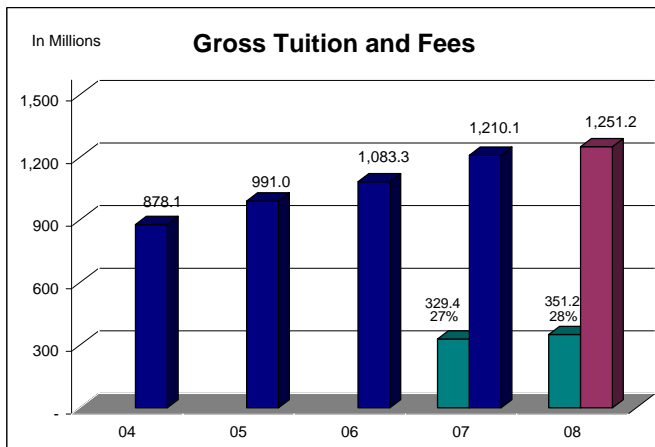
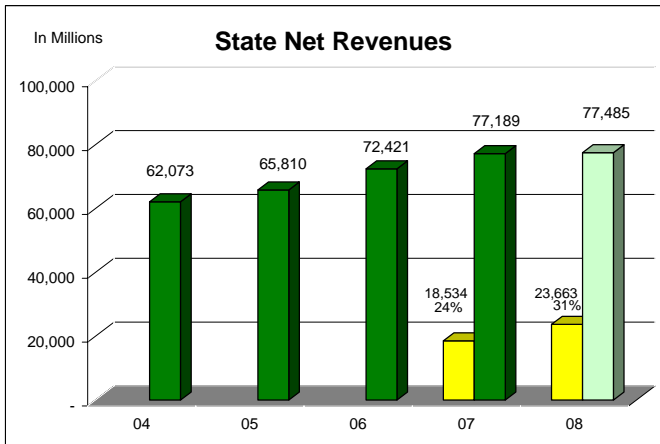
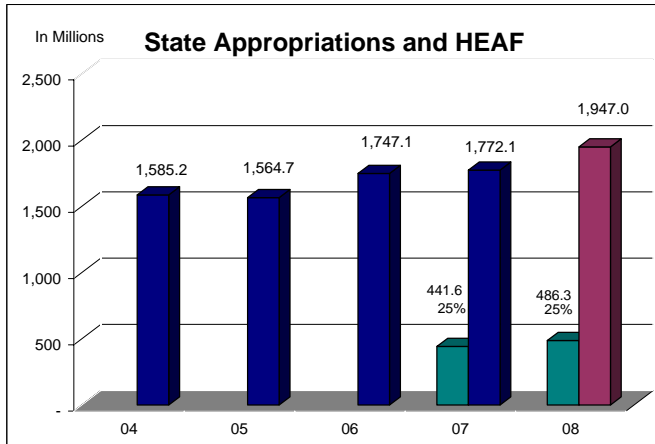
KEY FINANCIAL INDICATORS REPORT

1ST QUARTER FY 2008

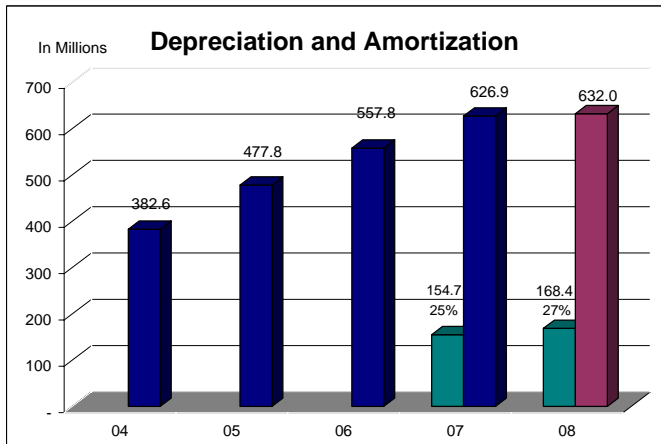
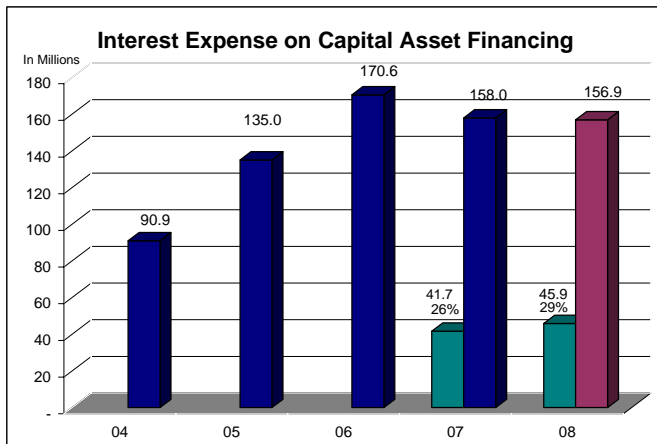
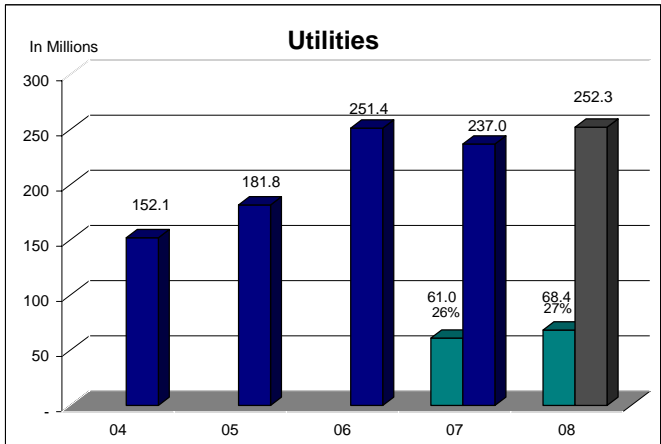
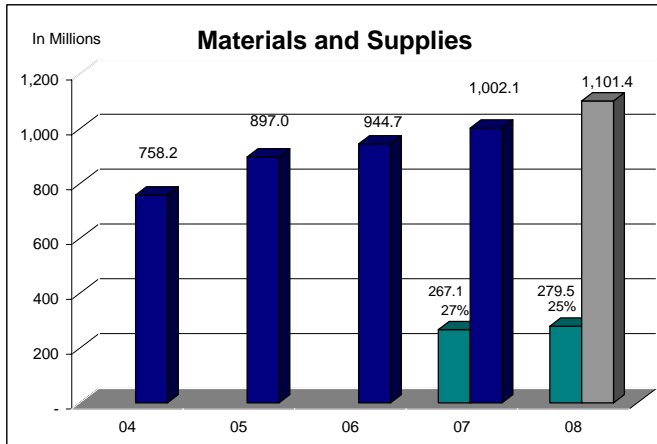
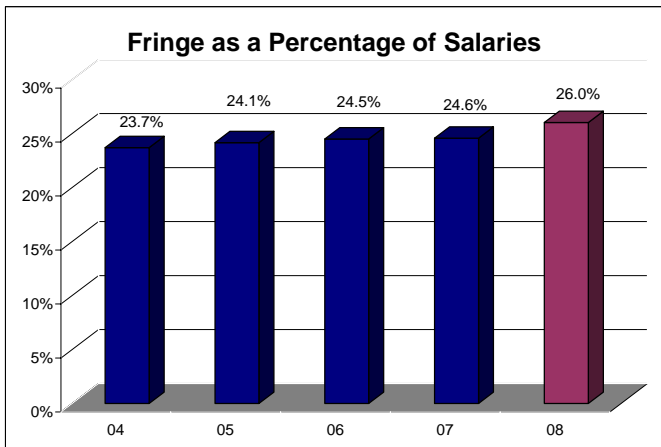
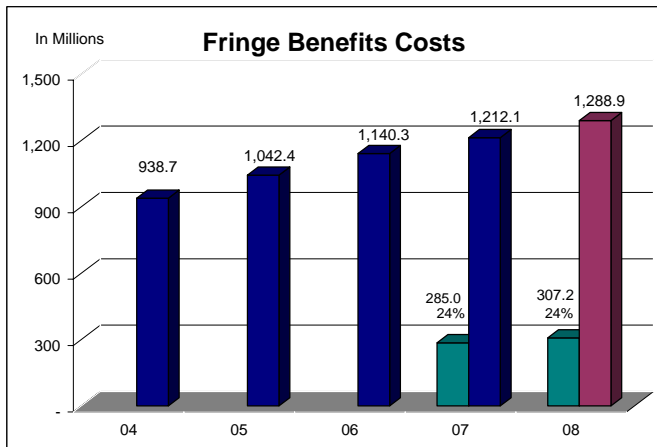
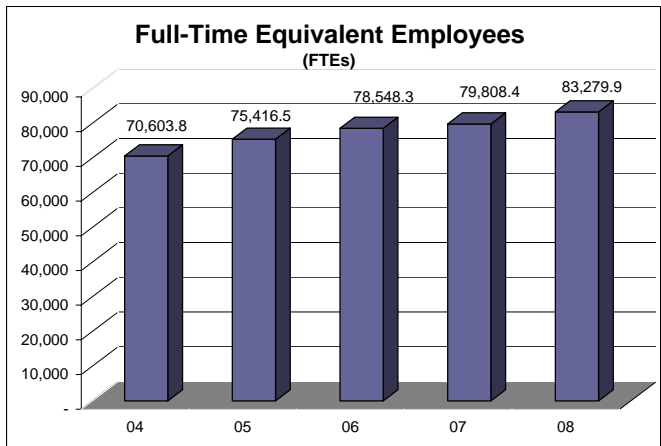
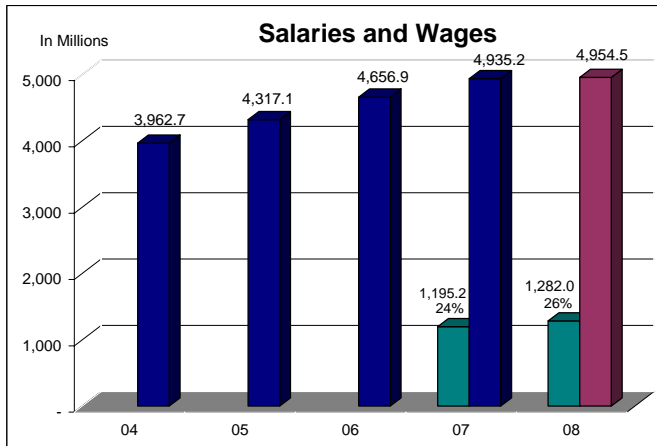
KEY

	Actual 2003 through 2007 amounts (SOURCE: Annual Financial Reports Fiscal Years 2003, 2004, 2005, 2006 and 2007)
	2008 Budget amounts (SOURCE: Operating Budget Summary 2008)
	Projected 2008 amounts (trend based on the average change of the previous four years of data)
	Monthly Financial Report Year to Date amounts for November 2006 and November 2007
	Annual State Net Revenue Collections for 2003, 2004, 2005, 2006 and 2007 (SOURCE: Texas Revenue History by Source 1978-2006 and Texas Net Revenue by Source - Fiscal 2007, State Comptroller's Office)
	Year to Date State Net Revenue Collections for November 2006 and November 2007 (SOURCE: State Comptroller's Office)
	Estimated State Revenue Collections for 2008 (SOURCE: Biennial Revenue Estimate, 2008 - 2009, State Comptroller's Office)
	2003, 2004, 2005, 2006 and 2007 Annual Average of FTEs, 1st Quarter 2008 FTEs (SOURCE: State Auditor's Office Quarterly FTE Report)
	Year-to-Date margin for December 2007 (SOURCE: Monthly Financial Report for December 2007)
	Projected 2008 (SOURCE: Monthly Financial Report Year- End Projections collected December 2007)
	Year-to-Date margin for December 2006 (SOURCE: Monthly Financial Report for December 2007)
	Target Normalized Rates
	Aaa/Aa1 Median (SOURCE: Moody's)
	A2 Median (SOURCE: Moody's)
	Good Facilities Condition Index (Below 5%)
	Fair Facilities Condition Index (5% - 10%)

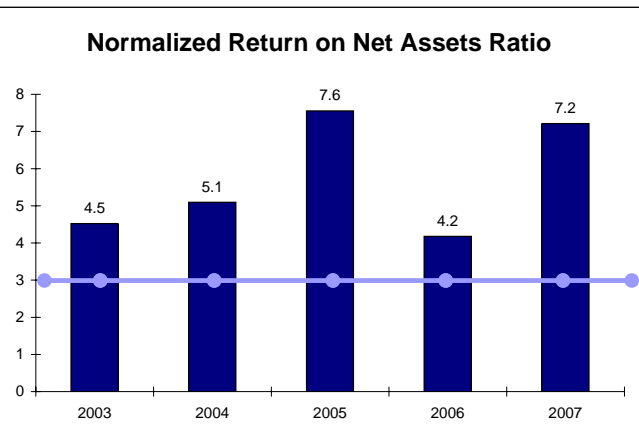
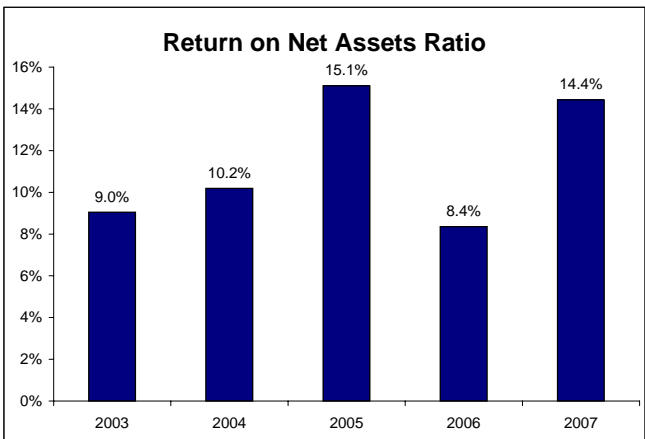
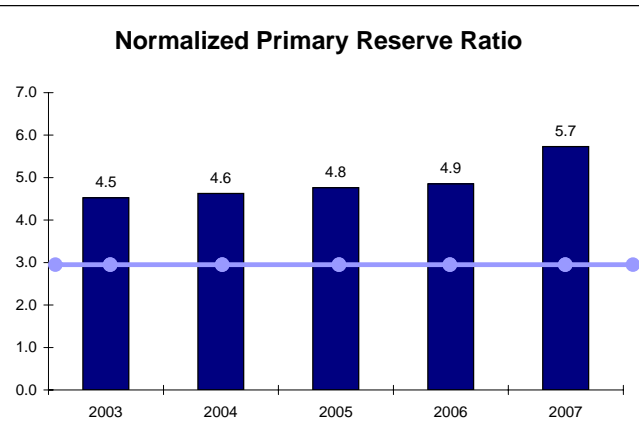
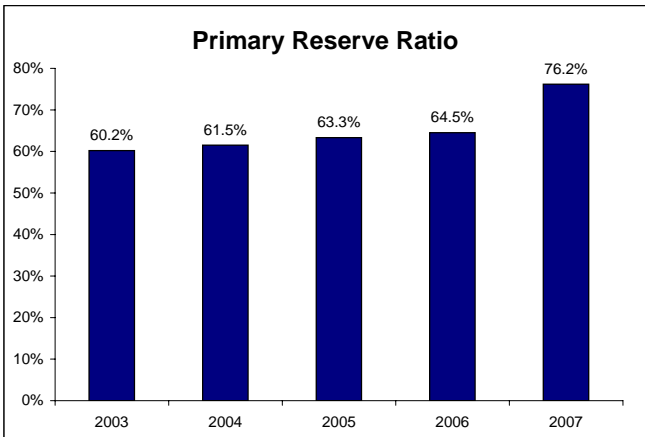
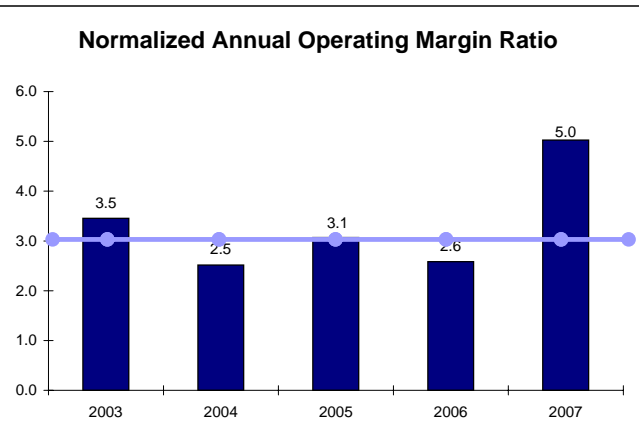
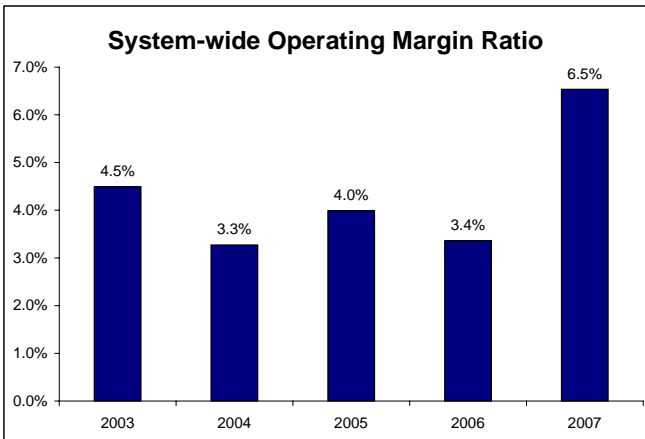
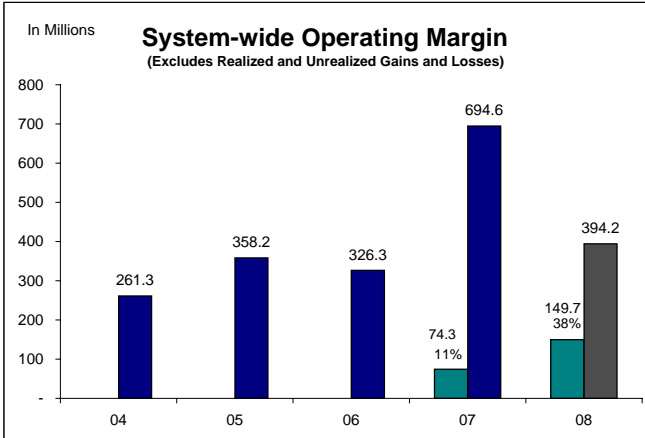
**KEY INDICATORS OF REVENUES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR TO DATE 2007 AND 2008 FROM NOVEMBER MONTHLY FINANCIAL REPORT**



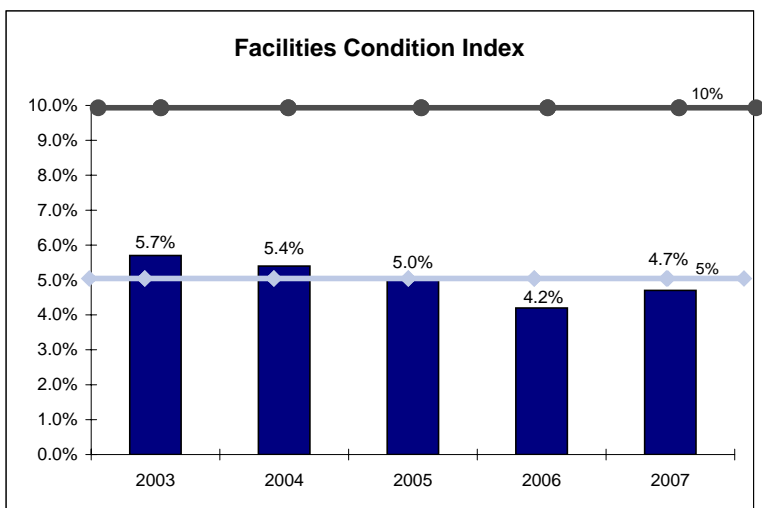
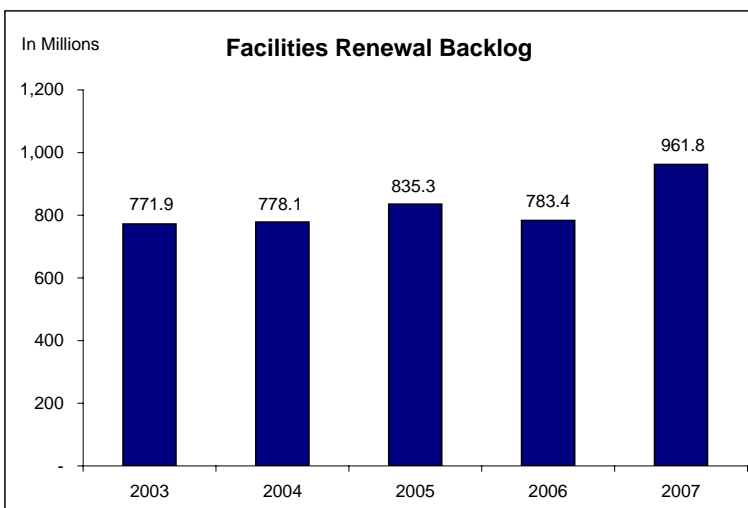
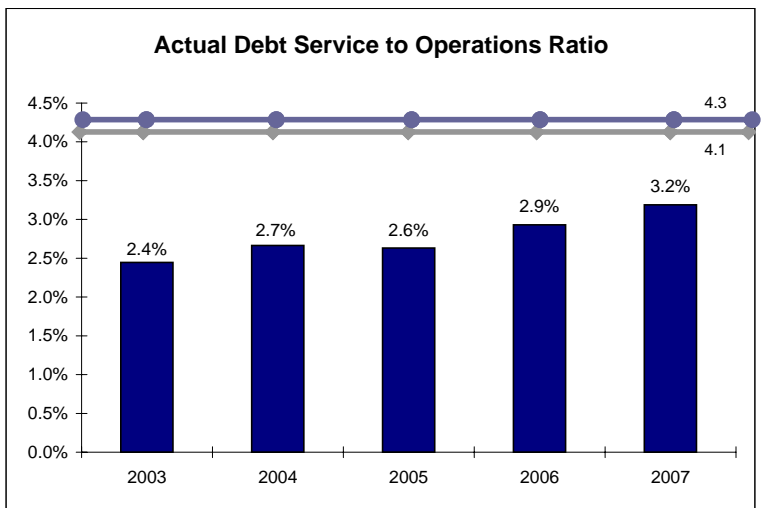
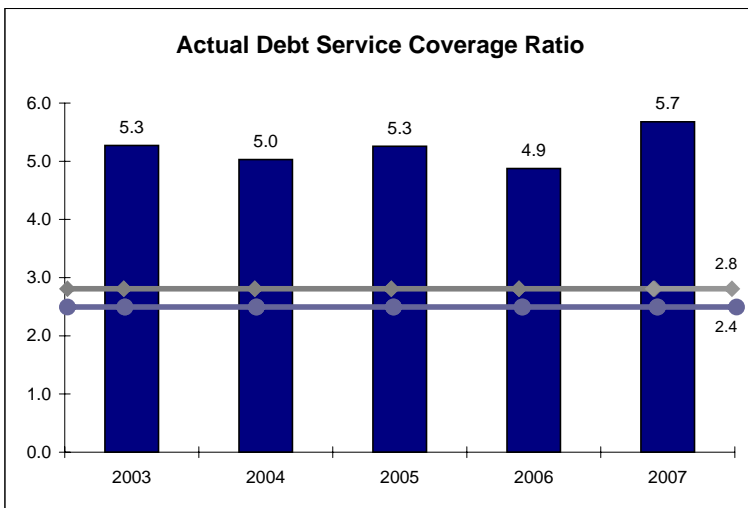
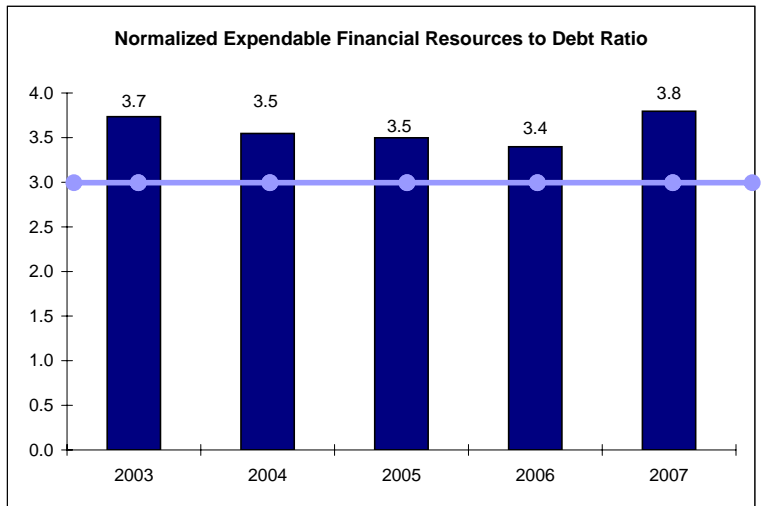
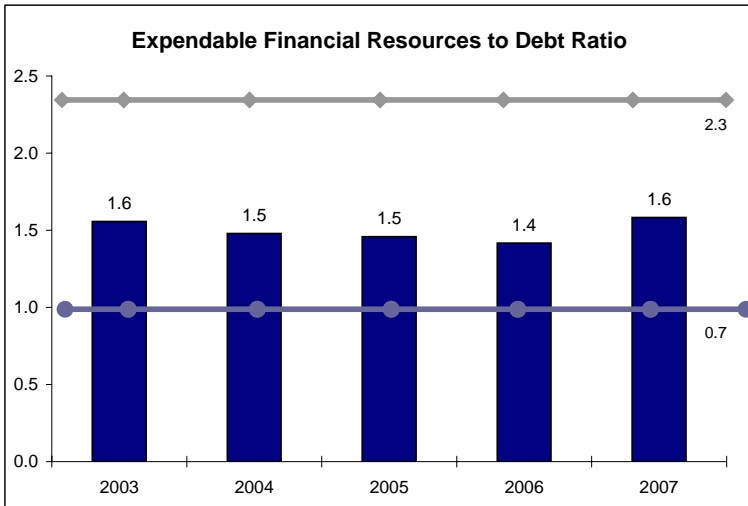
**KEY INDICATORS OF EXPENSES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR TO DATE 2007 AND 2008 FROM NOVEMBER MONTHLY FINANCIAL REPORT**



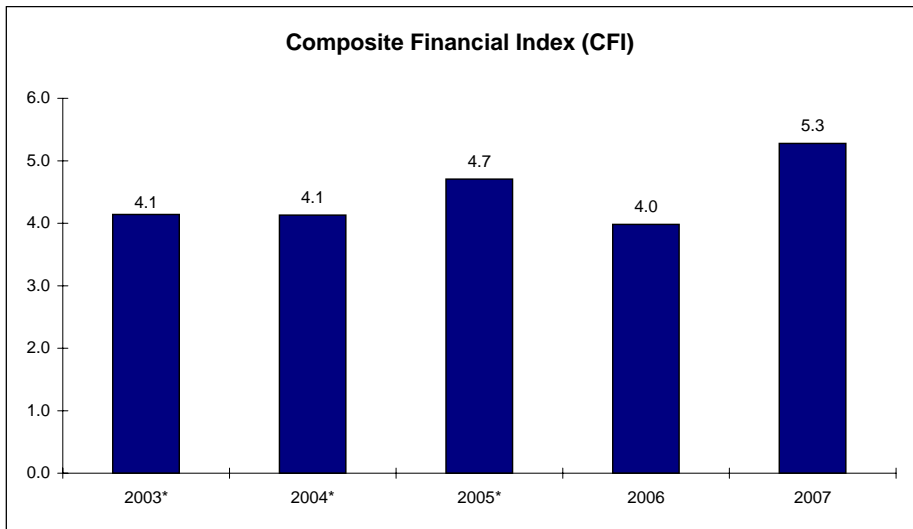
KEY INDICATORS OF RESERVES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR TO DATE 2007 AND 2008 FROM NOVEMBER MONTHLY FINANCIAL REPORT



KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2003 THROUGH 2007

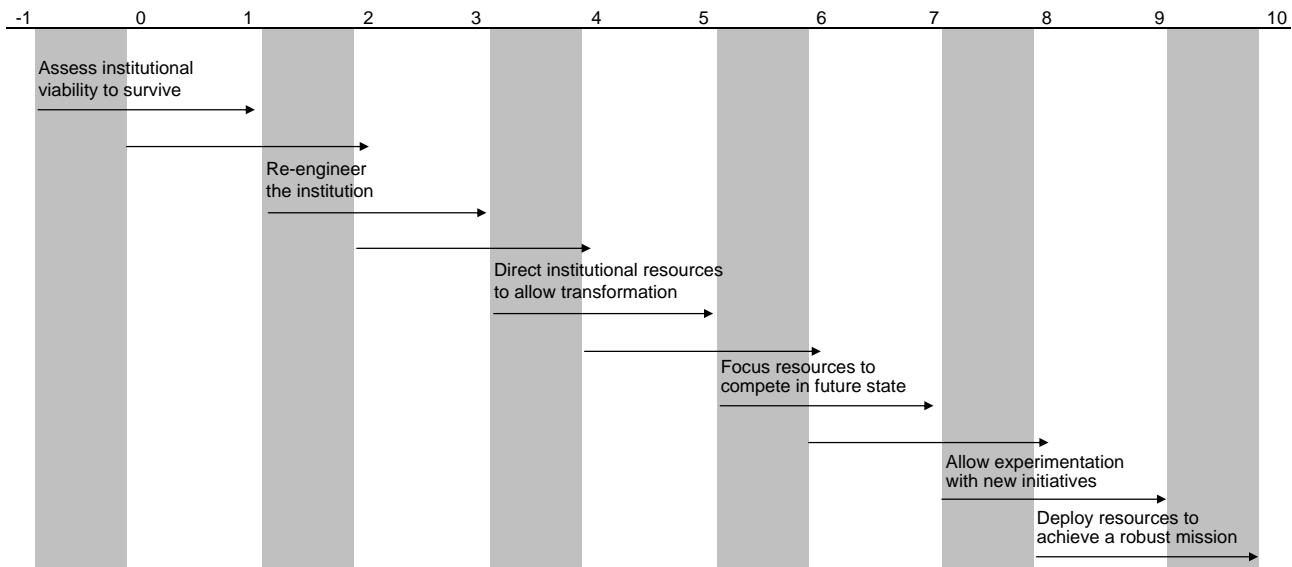


KEY INDICATORS OF FINANCIAL HEALTH 2003 THROUGH 2007



*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit

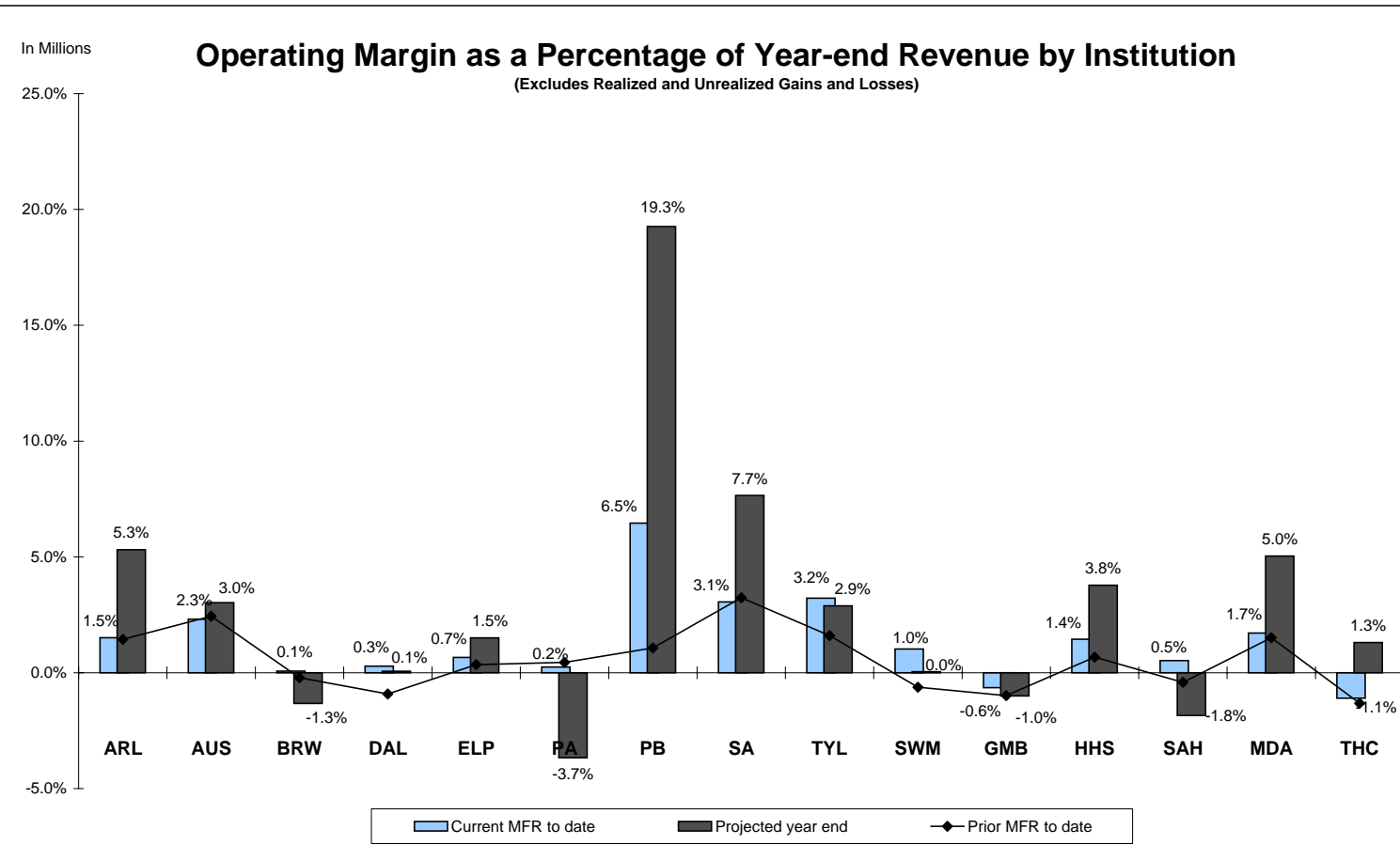
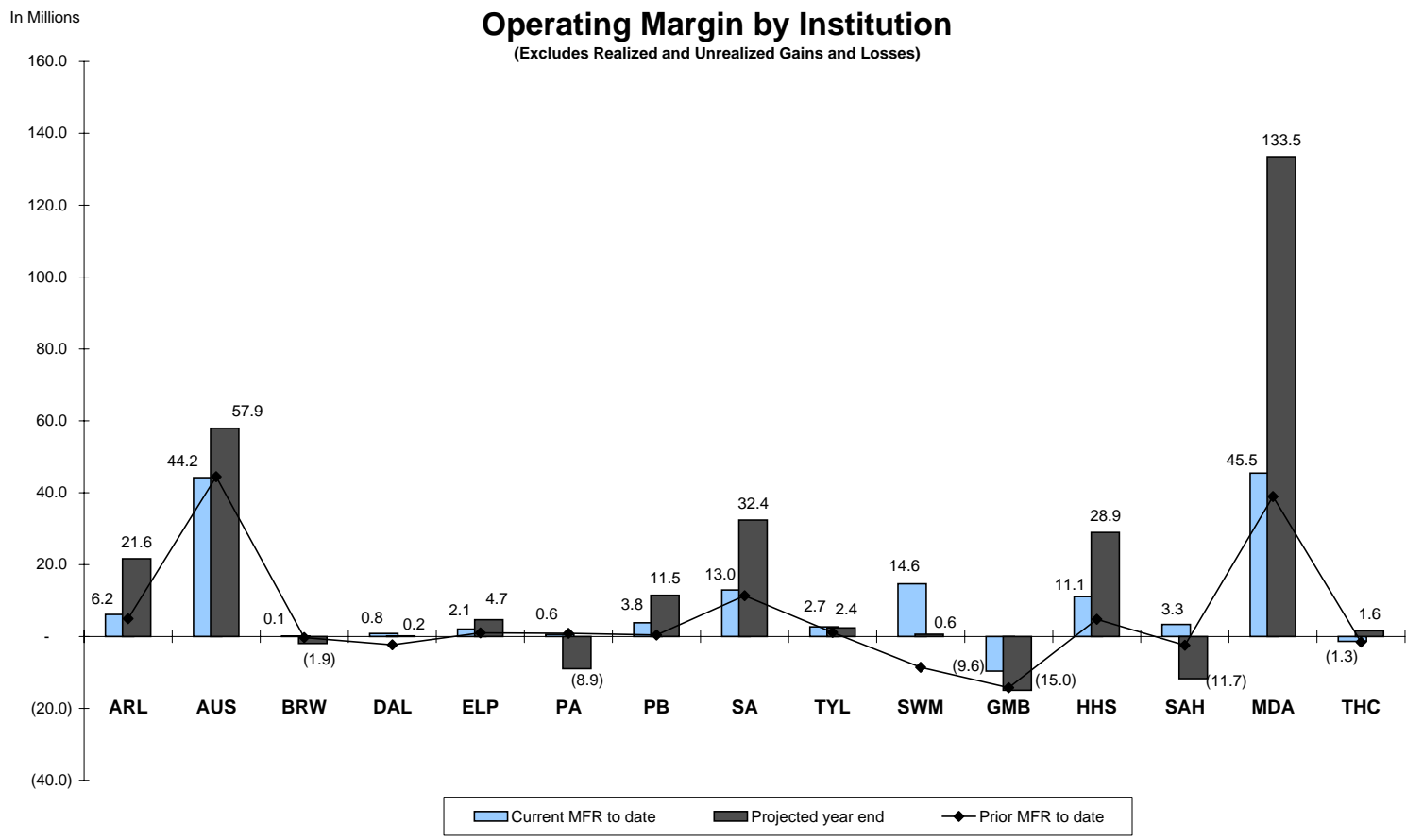
Scale for Charting CFI Performance



KEY INDICATORS OF RESERVES

YEAR TO DATE 2007 AND 2008 FROM DECEMBER MONTHLY FINANCIAL REPORT

PROJECTED 2008 YEAR-END MARGIN



3. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2007

The Analysis of Financial Condition is a broad annual financial evaluation that rates U. T. System institutions based on the factors analyzed as either "Satisfactory," "Watch," or "Unsatisfactory."

An Executive Summary of the report can be found on Pages 84 - 88 of Volume 2. Two institutions' ratings remain at "Watch," and the rating of one institution has been upgraded from "Watch" to "Satisfactory."

Supplemental Materials: Report on Pages 82 - 144 of Volume 2.

REPORT

Financial analysis is performed from each institution's Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. The following ratios were analyzed: Composite Financial Index, Operating Expense Coverage, Annual Operating Margin, Expendable Resources to Debt, Debt Burden, Debt Service Coverage, and Full-time Equivalent Student Enrollment (FTE) (academic institutions only).

The Analysis of Financial Condition has been prepared since 1995 to track financial ratios to determine if the financial condition of the institutions is improving or declining. This analysis compares trends for Fiscal Year 2003 through Fiscal Year 2007.

4. U. T. System: Approval of the Fiscal Year 2009 Operating Budget Preparation Policies and Calendar

RECOMMENDATION

With the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Executive Vice Chancellor for Health Affairs, the Chancellor recommends that the U. T. System Board of Regents approve the Budget Preparation Policies on Pages 92 - 93 and Calendar on Page 94 for use in preparing the Fiscal Year 2009 Operating Budget for the U. T. System.

U. T. System Fiscal Year 2009 Budget Preparation Policies

General Guidelines - The regulations and directives included in the General Appropriations Act enacted by the 80th Texas Legislature serve as the basis for these guidelines and policies. In preparing the draft of the 2009 Operating Budget, the president of each institution should adhere to guidelines and policies as detailed below and as included in the General Appropriations Act. The Chancellor will issue detailed instructions regarding the implementation of those regulations and directives into the institutional budget process.

Overall budget totals, including reasonable reserves, must be limited to the funds available for the year from General Revenue Appropriations, Estimates of Educational and General Income, and limited use of institutional unappropriated balances.

Salary Guidelines - Recommendations regarding salary policy are subject to the following directives:

1. Salaries Proportional by Fund - Unless otherwise restricted, payment for salaries, wages, and benefits paid from appropriated funds, including local funds and educational and general funds as defined in *Texas Education Code* Sections 51.009 (a) and (c), shall be proportional to the source of funds.
2. Merit Increases and Promotions - Subject to available resources and resolution of any major salary inequities, institutions should give priority to implementing merit salary increases for faculty and staff.

Merit increases or advances in rank for faculty are to be on the basis of teaching effectiveness, research, and public service.

Merit increases or promotions for administrative and professional staff and classified staff are to be based on evaluation of performance in areas appropriate to work assignments.

To be eligible for a merit increase, administrative and professional staff and classified staff must have been employed by the institution for at least six consecutive months ending August 31, 2008, and at least six months must have elapsed since the employee's last merit salary increase.

3. Other Increases - Equity adjustments, competitive offers, and increases to accomplish contractual commitments should also consider merit where appropriate, subject to available resources. Subject to guidance issued by the Chancellor, such increases should be noted and explained in the supplemental data accompanying the budget.

4. New Positions - Subject to available resources, new administrative and professional staff, classified staff, and faculty positions are to be requested only when justified by workloads or to meet needs for developing new programs.
5. Reporting - The Chancellor will issue guidance on reporting of salary changes and amounts. It is expected that required reports will encompass high-ranking and highly compensated staff along with those staff receiving significant changes in compensation.

Staff Benefits Guidelines - Recommendations regarding the State contribution for employee staff benefits such as group insurance premiums, teacher retirement, and optional retirement are subject to legislative determination via the General Appropriations Act.

Other Employee Benefits - Employer contributions to the self-insured Unemployment Compensation Fund are based on an actuarial study. Workers' Compensation Insurance rates are experience-rated for each institution. Appropriate instructions will be issued regarding the implementation of Unemployment Compensation Fund and Workers' Compensation Insurance Benefits.

Other Operating Expenses Guidelines - Increases in Maintenance, Operation, Equipment, and Travel are to be justified by expanded workloads, for developing new programs, or for correcting past deferrals or deficiencies.

BACKGROUND INFORMATION

The U. T. System Fiscal Year 2009 Budget Preparation Policies are consistent with the regulations and directives included in the General Appropriations Act enacted by the 80th Texas Legislature. As written, these budget preparation policies provide general direction to the U. T. System institutions.



**THE UNIVERSITY OF TEXAS SYSTEM
FY 2009 OPERATING BUDGET CALENDAR**

February 7, 2008	U. T. System Board of Regents takes appropriate action on budget preparation policies
March 31 – April 11, 2008	Major goals, priorities, and resource allocation hearings with U. T. System Administration
May 5, 2008	Draft budget documents due to U. T. System
May 8 – 16, 2008	Technical budget review with U. T. System
June 2, 2008	Final budget documents due to U. T. System
July 23 – 24, 2008	U. T. System Board of Regents to review Presidents and Executive Officers compensation
July 25, 2008	Operating Budget Summaries mailed to the U. T. System Board of Regents
August 14, 2008	U. T. System Board of Regents approves Operating Budget and Presidents and Executive Officers compensation

5. **U. T. System: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended November 30, 2007**

REPORT

The November 30, 2007, UTIMCO Performance Summary Report is attached on Page 96.

The Investment Reports for the fiscal quarter ended November 30, 2007, are set forth on Pages 97 - 100.

Item I on Page 97 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was 3.87% versus its composite benchmark return of 3.63%. The PUF's net asset value increased by \$418 million since the beginning of the quarter to \$12,161 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return, and the first payment of the annual distribution to the Available University Fund (AUF) for \$112 million.

Item II on Page 98 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was 3.96% versus its composite benchmark return of 3.63%. The GEF's net asset value increased during the quarter to \$6,718 million.

Item III on Page 99 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the quarter was 4.27% versus its composite benchmark return of 3.35%. The net asset value has increased to \$3,838 million due to net investment return of \$163 million, net withdrawal of \$17 million, and net distributions of \$29 million.

For all funds, all exposures were within their asset class ranges, generally very close to target, and liquidity was within policy.

Item IV on Page 100 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$3 million to \$1,515 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$28 million versus \$29 million at the beginning of the period; equities: \$65 million versus \$69 million at the beginning of the period; and other investments: \$.1 million versus \$4 million at the beginning of the period.

UTIMCO Performance Summary

November 30, 2007

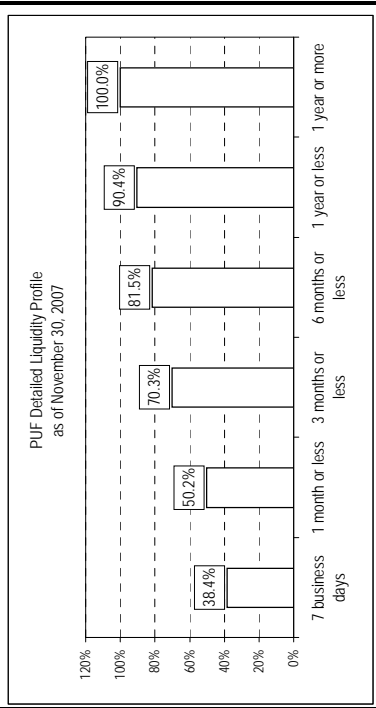
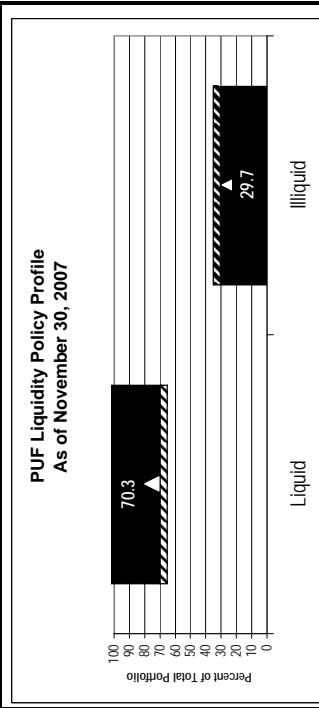
	Net Asset Value 11/30/2007 (in Millions)	Periods Ended November 30, 2007 (Returns for Periods Longer Than One Year are Annualized)																		
		Short Term		Year to Date		Historic Returns														
		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs											
ENDOWMENT FUNDS																				
Permanent University Fund	\$ 12,161	(2.27)	3.87	3.87	13.51	14.73	13.84	15.24	9.03											
General Endowment Fund		(2.19)	3.96	3.96	14.00	15.26	13.99	15.48	N/A											
Permanent Health Fund	1,133	(2.21)	3.93	3.93	13.83	15.05	13.88	15.36	N/A											
Long Term Fund	5,584	(2.21)	3.94	3.94	13.84	15.06	13.89	15.38	9.68											
Separately Invested Funds	150	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A											
Total Endowment Funds	19,028																			
OPERATING FUNDS																				
Short Term Fund	1,459	0.42	1.30	1.30	4.90	5.37	4.45	3.14	3.95											
Intermediate Term Fund	3,837	(1.65)	4.27	4.27	10.27	10.35	N/A	N/A	N/A											
Total Operating Funds	5,296																			
Total Investments	\$ 24,324																			
VALUE ADDED																				
Permanent University Fund		(0.10)	0.24	0.24	2.75	3.09	0.89	2.45	(0.12)											
General Endowment Fund		(0.02)	0.33	0.33	3.24	3.62	1.04	2.69	N/A											
Permanent Health Fund		(0.04)	0.30	0.30	3.07	3.41	0.93	2.57	N/A											
Long Term Fund		(0.04)	0.31	0.31	3.08	3.42	0.94	2.59	0.69											
Short Term Fund		(0.05)	0.15	0.15	0.19	0.20	0.17	0.11	0.16											
Intermediate Term Fund		0.26	0.92	0.92	3.37	3.50	N/A	N/A	N/A											

Footnotes available upon request.

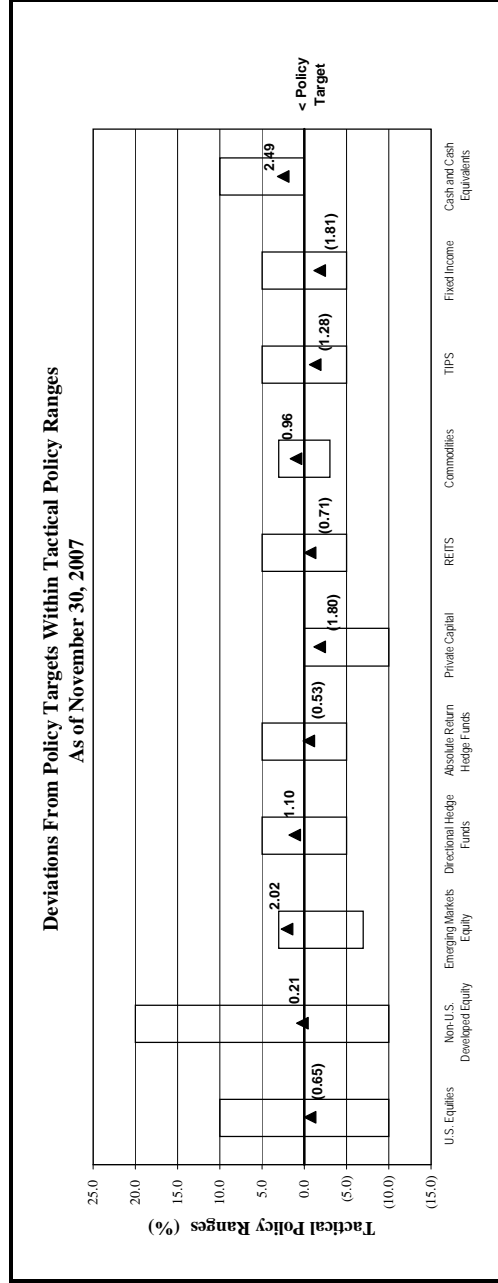
I. PERMANENT UNIVERSITY FUND
Investment Reports for Periods Ended November 30, 2007

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows				
	Fiscal Year Ended	Quarter Ended	Fiscal Year to Date	
	August 31, 2007	November 30, 2007	2007	2007
Beginning Net Assets (\$ millions)	\$ 10,313.4	\$ 11,742.8	\$ 11,742.8	\$ 11,742.8
PUF Lands Receipts	272.8	81.3	81.3	81.3
Investment Return	1,639.8	469.6	469.6	469.6
Expenses	(82.5)	(20.8)	(20.8)	(20.8)
Distributions to AUF	(400.7)	(112.2)	(112.2)	(112.2)
Ending Net Assets	\$ 11,742.8	\$ 12,160.7	\$ 12,160.7	\$ 12,160.7

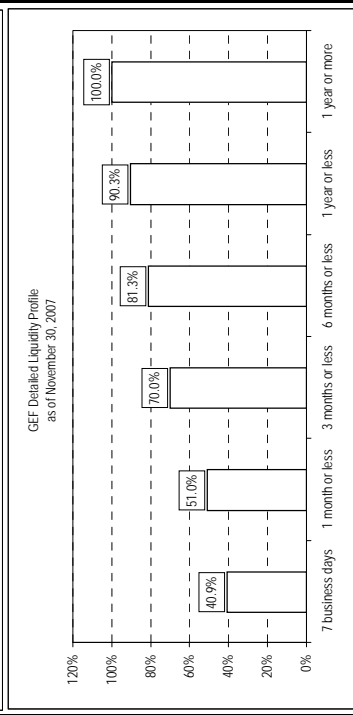
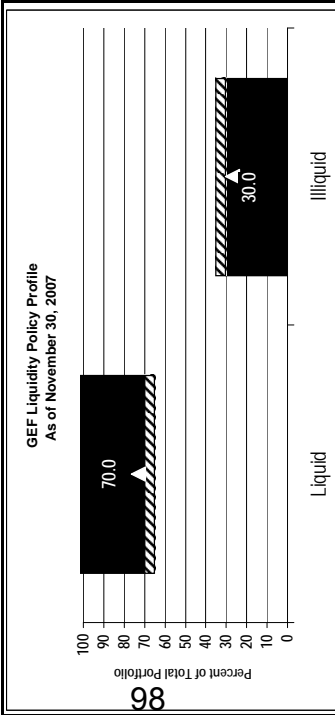


	November 30, 2007				Fiscal Year to Date			
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total	
Cash and Cash Equivalents	2.49%	0.00%	1.30%	1.15%	-0.13%	0.00%	-0.13%	
U.S. Equities	19.35%	20.00%	-0.39%	0.80%	0.01%	-0.25%	-0.24%	
Non-U.S. Developed Equity	10.21%	10.00%	3.38%	5.89%	-0.01%	-0.24%	-0.25%	
Emerging Markets Equity	9.02%	7.00%	12.37%	14.68%	0.11%	-0.17%	-0.06%	
Directional Hedge Funds	11.10%	10.00%	9.16%	1.85%	0.04%	0.72%	0.76%	
Absolute Return Hedge Funds	14.47%	15.00%	2.69%	1.85%	0.00%	0.13%	0.13%	
REITS	4.29%	5.00%	-4.76%	-5.14%	0.03%	0.02%	0.05%	
Commodities	3.96%	3.00%	14.13%	13.49%	0.07%	0.02%	0.09%	
TIPS	3.72%	5.00%	6.87%	6.54%	-0.06%	0.02%	-0.04%	
Fixed Income	8.19%	10.00%	4.61%	3.49%	-0.02%	0.11%	0.09%	
Total Marketable Securities	86.80%	85.00%	4.09%	3.63%	0.04%	0.36%	0.40%	
Private Capital	13.20%	15.00%	2.07%	3.50%	0.05%	-0.21%	-0.16%	
Total	100.00%	100.00%	3.87%	3.63%	0.09%	0.15%	0.24%	



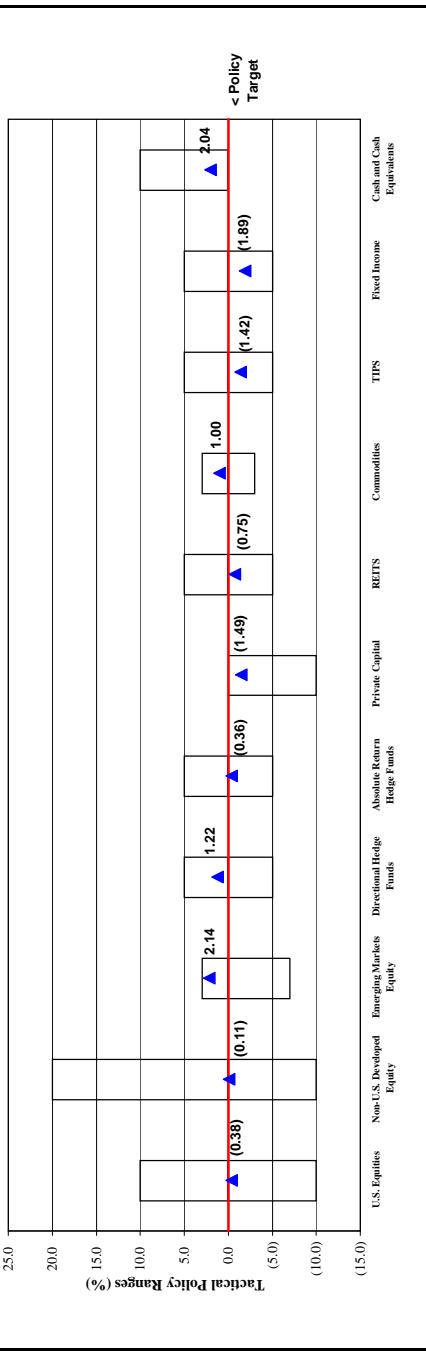
II. GENERAL ENDOWMENT FUND
Investment Reports for Periods Ended November 30, 2007
 Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2007	Quarter Ended November 30, 2007	Fiscal Year to Date November 30, 2007
Beginning Net Assets (\$ millions)	\$ 5,427.8	\$ 6,433.1	\$ 6,433.1
Contributions	360.7	90.4	90.4
Withdrawals	(6.2)	(0.3)	(0.3)
Distributions	(239.6)	(63.5)	(63.5)
Investment Return	928.5	266.9	266.9
Expenses	(38.1)	(8.9)	(8.9)
Ending Net Assets	\$ 6,433.1	\$ 6,717.7	\$ 6,717.7



	Fiscal Year to Date					
	November 30, 2007	Returns	Value Added	From Asset Allocation	From Security Selection	Total
Portfolio Exposure	2.04%	0.86%	0.00%	-0.13%	0.00%	-0.13%
Policy Target	20.00%	-0.37%	0.80%	0.00%	-0.24%	-0.24%
Portfolio Exposure	9.89%	3.56%	5.89%	0.00%	-0.23%	-0.23%
Policy Target	7.00%	12.39%	14.68%	0.12%	-0.17%	-0.05%
Portfolio Exposure	11.22%	9.16%	1.85%	0.03%	0.73%	0.76%
Policy Target	15.00%	2.69%	1.85%	-0.01%	0.13%	0.12%
Portfolio Exposure	4.25%	-4.77%	-5.14%	0.04%	0.02%	0.06%
Policy Target	3.00%	14.09%	13.49%	0.07%	0.02%	0.09%
Portfolio Exposure	3.58%	6.84%	6.54%	-0.06%	0.01%	-0.05%
Policy Target	8.11%	4.54%	3.49%	-0.01%	0.10%	0.09%
Portfolio Exposure	86.49%	4.11%	3.63%	0.05%	0.37%	0.42%
Policy Target	13.51%	2.65%	3.50%	0.03%	-0.12%	-0.09%
Portfolio Exposure	100.00%	3.96%	3.63%	0.08%	0.25%	0.33%
Policy Target						

Deviations From Policy Targets Within Tactical Policy Ranges
As of November 30, 2007



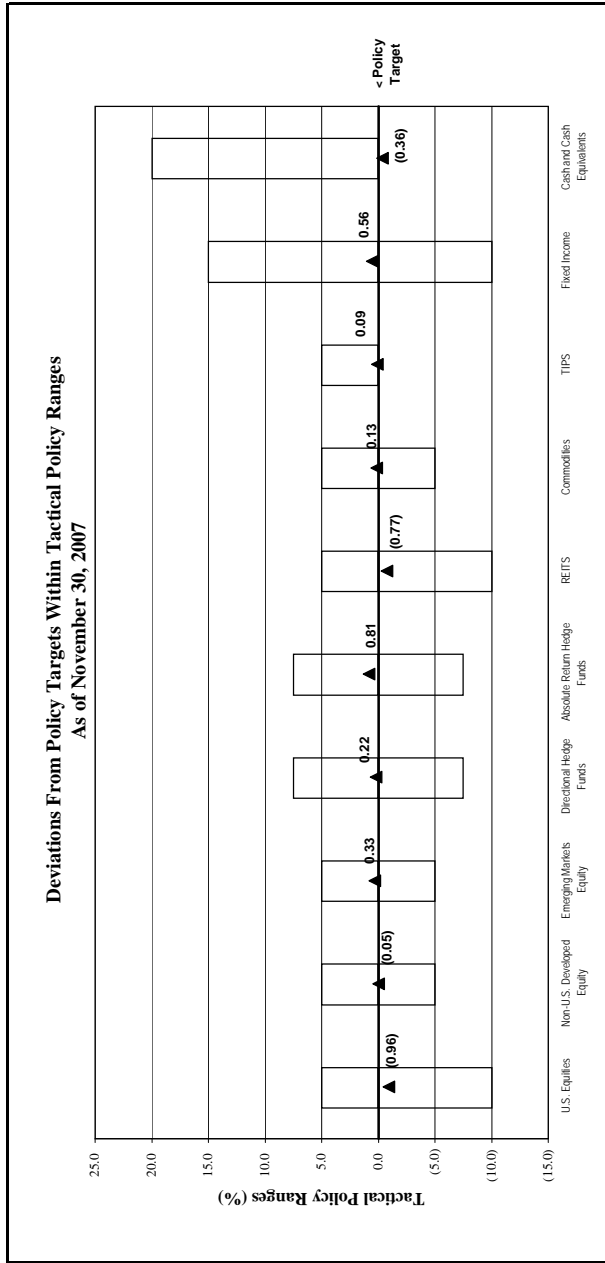
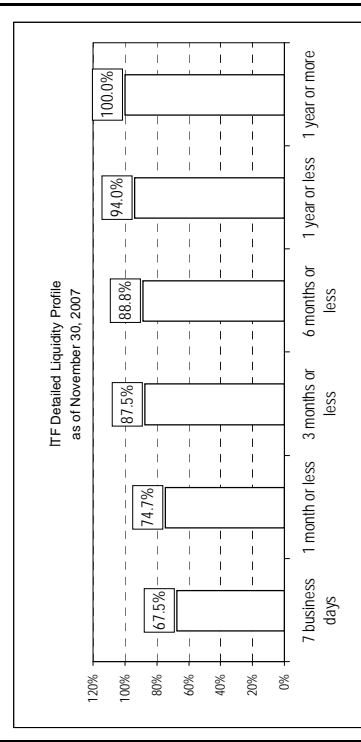
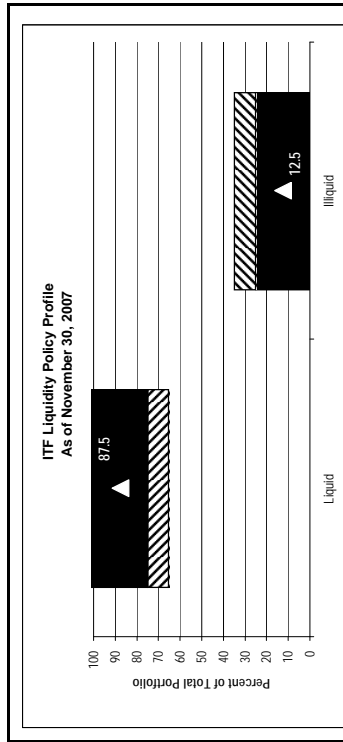
III. INTERMEDIATE TERM FUND

Investment Reports for Periods Ended November 30, 2007

Prepared in accordance with Texas Education Code Sec. 51.0032

	Summary of Capital Flows		
	Fiscal Year Ended August 31, 2007	Quarter Ended November 30, 2007	Fiscal Year to Date November 30, 2007
(\$ millions)			
Beginning Net Assets	\$ 3,048.8	\$ 3,720.6	\$ 3,720.6
Contributions	664.6	1,015.4	1,015.4
Withdrawals	(228.6)	(1,032.4)	(1,032.4)
Distributions	(104.0)	(29.0)	(29.0)
Investment Return	377.4	171.5	171.5
Expenses	(37.6)	(8.6)	(8.6)
Ending Net Assets	\$ 3,720.6	\$ 3,837.5	\$ 3,837.5

	Returns						
	November 30, 2007	Fiscal Year to Date					
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	-0.36%	0.00%	1.30%	1.15%	-0.07%	0.00%	-0.07%
U.S. Equities	14.04%	15.00%	0.53%	0.80%	0.02%	-0.04%	-0.02%
Non-U.S. Developed Equity	4.95%	5.00%	3.38%	5.89%	-0.01%	-0.12%	-0.13%
Emerging Markets Equity	5.33%	5.00%	12.05%	14.68%	0.01%	-0.13%	-0.12%
Directional Hedge Funds	12.72%	12.50%	9.17%	1.85%	-0.03%	0.91%	0.88%
Absolute Return Hedge Funds	13.31%	10.00%	2.69%	1.85%	-0.01%	0.11%	0.10%
REITS	9.23%	10.00%	-4.80%	-5.14%	-0.02%	0.04%	0.02%
Commodities	5.13%	5.00%	13.96%	13.49%	0.01%	0.02%	0.03%
TIPS	10.09%	10.00%	6.81%	6.54%	-0.01%	0.02%	0.01%
Fixed Income	25.56%	25.00%	4.38%	3.49%	0.00%	0.22%	0.22%
Total	100.00%	100.00%	4.27%	3.35%	-0.11%	1.03%	0.92%



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at November 30, 2007
 Report prepared in accordance with Texas Education Code Sec. 51.0032

ASSET TYPES	(\$ thousands)																	
	CURRENT PURPOSE		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (SHORT TERM FUND)		TOTAL					
	DESIGNATED	RESTRICTED	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET		
Cash & Equivalents:																		
Beginning value 08/31/07	1,899	2,146	44,883	44,883	7,343	7,343	52,093	52,093	108,364	108,364	1,404,023	1,404,023	1,512,387	1,512,387				
Increase/(Decrease)	134	804	(4,937)	(4,937)	(69)	(69)	(47,907)	(47,907)	(51,975)	(51,975)	54,655	54,655	2,680	2,680				
Ending value 11/30/07	2,033	2,950	39,946	39,946	7,274	7,274	4,186	4,186	56,389	56,389	1,458,678	1,458,678	1,515,067	1,515,067				
Debt Securities:																		
Beginning value 08/31/07	-	271	13,208	13,709	15,276	15,211	-	-	28,755	29,157	-	-	28,755	29,157				
Increase/(Decrease)	-	(7)	(232)	18	(1,469)	(957)	-	-	(1,708)	(937)	-	-	(1,708)	(937)				
Ending value 11/30/07	-	264	12,976	13,727	13,807	14,254	-	-	27,047	28,220	-	-	27,047	28,220				
Equity Securities:																		
Beginning value 08/31/07	24	5,815	439	488	17,930	23,998	-	-	51,084	69,358	-	-	51,084	69,358				
Increase/(Decrease)	-	(1,915)	132	131	(2,185)	(2,757)	-	-	(1,665)	(4,331)	-	-	(1,665)	(4,331)				
Ending value 11/30/07	24	3,900	571	619	15,745	21,241	-	-	49,419	65,027	-	-	49,419	65,027				
Other:																		
Beginning value 08/31/07	1,293	2,321	1	1	288	116	539	539	4,442	4,270	-	-	4,442	4,270				
Increase/(Decrease)	(1,293)	(2,175)	-	-	12	-	(409)	(409)	(3,865)	(3,877)	-	-	(3,865)	(3,877)				
Ending value 11/30/07	-	146	1	1	300	116	130	130	577	393	-	-	577	393				
Total Assets:																		
Beginning value 08/31/07	3,216	9,007	90,783	97,650	40,837	46,668	52,632	52,632	192,645	211,149	1,404,023	1,404,023	1,596,668	1,615,172				
Increase/(Decrease)	(1,159)	(3,074)	(4,781)	(4,709)	(3,711)	(3,783)	(48,316)	(48,316)	(59,213)	(61,120)	54,655	54,655	(4,558)	(6,465)				
Ending value 11/30/07	2,057	5,933	86,002	92,941	37,126	42,885	4,316	4,316	133,432	150,029	1,458,678	1,458,678	1,592,110	1,608,707				

Details of individual assets by account furnished upon request.

6. **U. T. System Board of Regents: Approval of amendments to The University of Texas Investment Management Company (UTIMCO) Bylaws**

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the amendments to the UTIMCO Bylaws as set forth in congressional style on Pages 102 - 114.

BACKGROUND INFORMATION

Section 66.08 of the *Texas Education Code* requires that the U. T. System Board of Regents approve the Bylaws of UTIMCO and any amendments thereto. These proposed amendments to the Bylaws are on the agenda for the UTIMCO Board of Directors' approval on January 30, 2008. Proposed amendments are summarized as follows:

- Article III, Section 7: Eliminate the deadline for the joint annual meeting between the UTIMCO Board and the U. T. System Board of Regents. This change allows flexibility in the timing of the annual meeting.
- Article III, Section 8: Delete the requirement to consult with the Vice Chairmen on the draft of the UTIMCO Board agenda three weeks in advance of the meeting. This change is consistent with the current practice of reviewing the agenda only with the Chairman and the Chancellor, as the Vice Chairman for Policy.
- Article V, Section 6: Include complete title of the Master Investment Management Services Agreement with UTIMCO. Also, clarify the power and authority of the Vice Chairman for Policy to act in the absence of both the Chairman and Vice Chairman of the UTIMCO Board.
- Article V, Section 7: Clarify that all references to President in the Bylaws mean the Chief Executive Officer (CEO) of UTIMCO.

BYLAWS
OF
THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY

Restated to Include
Amendments Adopted on

March 13, 1997
(Approved by the Board of Regents on May 8, 1997)

May 2, 1997
(Approved by the Board of Regents on May 8, 1997)

September 22, 1999
(Approved by the Board of Regents on November 11, 1999)

December 9, 1999
(Approved by the Board of Regents on February 10, 2000)

October 26, 2001
(Approved by the Board of Regents on November 8, 2001)

June 26, 2003
(Approved by the Board of Regents on August 7, 2003)

Ratified September 29, 2004
(Approved by the Board of Regents on August 12, 2004)

May 25, 2006
(Approved by the Board of Regents on July 13, 2006)

January 30, 2008
(Approved by the Board of Regents on February 7, 2008)

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BYLAWS
OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

ARTICLE I
STRUCTURE AND PURPOSES

Section 1. Structure. The University of Texas Investment Management Company (the “Corporation”) is a nonprofit corporation organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 (the “Act”). The Articles of Incorporation of the Corporation (as amended from time to time, the “Articles of Incorporation”) were filed in the office of the Secretary of the State of Texas on November 15, 1995.

Section 2. Member. The Corporation shall have no members.

Section 3. Purposes. The Corporation is organized and will be operated exclusively for charitable and educational purposes. In accomplishment of such purposes, the Corporation will be administered solely for the purpose of aiding, assisting, supporting and acting on behalf of The University of Texas System (the “System”), an agency of the State of Texas, in the performance of its essential governmental function of providing higher education in accordance with the laws of the State of Texas authorizing and governing the System and the creation of the Corporation. The Corporation shall have, without limitation, the following purposes:

- (a) To invest funds under the control and management of the Board of Regents of the System (the “Board of Regents”), including the permanent university fund, as designated by the Board of Regents in accordance with the laws of the State of Texas; and
- (b) To perform such other activities or functions that the Board of Directors of the Corporation determines are necessary or appropriate for the accomplishment of the purposes of the Corporation, provided, however, that the Corporation may not engage in any business other than investing funds designated by the Board of Regents pursuant to a contract with the System for the investment of such funds.

Section 4. Approval by System. Notwithstanding the powers delegated to the Board of Directors of the Corporation, the Corporation may not contract with the Board of Regents to invest funds under the control and management of the Board of Regents, including the permanent university fund, unless and until the Board of Regents has approved (i) the Articles of Incorporation and Bylaws of the Corporation; (ii) the investment policies of the Corporation; (iii) the audit and ethics committee of the Corporation; and (iv) the code of ethics of the Corporation. Furthermore, the Board of Regents must approve (i) any amendments to the Articles of Incorporation and Bylaws of the Corporation; (ii) any changes to the investment policies of the Corporation; (iii) any changes in the audit and ethics committee of the

Corporation; and (iv) any changes in the code of ethics of the Corporation. The Corporation shall file reports with the Board of Regents quarterly, and at such other times as requested by the Board of Regents, concerning such matters as required by the Board of Regents.

Section 5. Prohibited Transactions. In addition to the prohibitions of the laws of the State of Texas, the Corporation may not enter into an agreement or transaction with a former director, officer, or employee of the Corporation, or a business entity in which a former director, officer, or employee of the Corporation has an interest, on or before the first anniversary of the date the person ceased to be a director, officer, or employee of the Corporation. For purposes of this section (i) a former director, officer, or employee of the Corporation has an interest in a business entity if such person owns (a) five percent or more of the voting stock or shares of the business entity or (b) five percent or more of the fair market value of the business entity, and (ii) a former director of the Corporation has an interest in a business entity if money received by such person from the business entity exceeds five percent of the person's gross income for the preceding calendar year. A two-thirds majority of the Board of Directors of the Corporation shall be required to forward to the Board of Regents a change to this Section.

Section 6. Revolving Door. A former director or employee of the Corporation may not make any communication to or appearance before a current director or employee of the Corporation before the second anniversary, in the case of a former director, or the first anniversary, in the case of a former employee, of the date the former director or employee ceased to be a director or employee of the Corporation if the communication or appearance is made (a) with the intent to influence, and (b) on behalf of any person in connection with any matter on which the person seeks action by the Corporation. If a director of the Corporation knowingly communicates with a former director or employee of the Corporation, whose communication or appearance is made with the intent to influence, and on behalf of any person in connection with any matter on which the person seeks action by the Corporation, such director shall be subject to removal from serving as a director of the Corporation. If an employee of the Corporation knowingly communicates with a former director or employee of the Corporation whose communication or appearance is made with the intent to influence, and on behalf of any person in connection with any matter on which the person seeks action by the Corporation, such director or employee shall be subject to disciplinary action. A two-thirds majority of the Board of Directors of the Corporation shall be required to forward to the Board of Regents a change to this Section.

ARTICLE II OFFICES

Section 1. Principal Place of Business. The principal place of business of the Corporation shall be located at 401 Congress Avenue, Suite 2800, Austin, Texas 78701. The Corporation may have such other offices, either within or without the State of Texas, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

Section 2. Registered Office and Registered Agent. The Corporation shall have and continuously maintain in the State of Texas a registered office and a registered agent whose office is the Corporation's registered office, as required by the Act. The registered office may, but need not, be identical with the principal office of the Corporation in the State of Texas, and the address of the registered office may be changed from time to time by the Board of Directors in accordance with applicable law.

ARTICLE III BOARD OF DIRECTORS

Section 1. Powers. The property, business, and affairs of the Corporation shall be managed and controlled by the Board of Directors, and subject to the restrictions imposed by law, the Articles of Incorporation, and these Bylaws, the Board of Directors shall exercise all of the powers of the Corporation.

Section 2. Number. The Board of Directors shall consist of nine (9) Directors consistent with *Texas Education Code* Section 66.08.

Section 3. Appointment and Term. Directors shall be appointed by the Board of Regents, pursuant to a process determined by the Board of Regents, except that the Chancellor of the System shall serve as a Director so long as he or she remains Chancellor of the System. In compliance with applicable law, the members of the Board of Directors shall include (i) the Chancellor of the System, (ii) at least three (3) persons then serving as members of the Board of Regents ("Regental Directors"), and (iii) one or more persons selected by the Board of Regents from a list of candidates with substantial background and expertise in investments that is submitted by the Board of Regents of The Texas A&M University System (together with the Chancellor of the System and the Regental Directors, the "Affiliated Directors"). The three (3) Regental Directors shall serve for two-year terms that expire on the first day of April of each odd-numbered year. The remaining Directors (other than the Chancellor of the System and the Regental Directors) shall serve three-year staggered terms that expire on the first day of April of the appropriate year. No such Director (other than the Affiliated Directors) shall serve more than three (3) full three-year terms. Notwithstanding the foregoing, the Board of Regents may, from time to time, alter the terms of the Directors. Each person serving as a Director shall serve until the expiration of such Director's term, or until such Director's successor has been chosen and qualified, or until such Director's earlier death, resignation, or removal as provided in these Bylaws.

Section 4. Removal and Resignation. Any Director may be removed from office at any time, with or without cause, by the Board of Regents. Any Director or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 5. Vacancies. Any vacancy occurring in the office of a Director, whether by death, resignation, removal, increase in the number of Directors, or otherwise, shall be filled by the Board of Regents.

Section 6. Meetings of Directors. The Directors may hold meetings and keep the Corporation's books and records at such place or places within the State of Texas as the Board of Directors may from time to time determine.

Section 7. Annual Meetings. The annual meeting of the Board of Directors ("Annual Meeting") shall be held at such time and place as shall be designated from time to time by resolution of the Board of Directors, or, if not so designated, on the third Thursday of the month of April of each year at the Corporation's principal office for the purpose of (i) electing officers for the ensuing year, and (ii) transacting such other business as may be properly brought before such Annual Meeting. Notice of Annual Meetings shall be required.

A joint annual meeting with the U. T. Board of Regents ("Joint Meeting") shall be held ~~prior to August 1 of~~ each year to discuss investment policies including asset allocation, investment performance, determination of risk, performance of the Corporation, organizational issues, proposed budget, and related issues. Notice of Joint Meetings shall be required.

Section 8. Regular Meetings. Regular meetings of the Board of Directors ("Regular Meetings") shall be held at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of Regular Meetings shall be required. The UTIMCO President shall consult with the Chairman and ~~the Vice Chairmen of the UTIMCO Board, including~~ the Chancellor, as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least three (3) weeks prior to each regular UTIMCO Board meeting.

Section 9. Special Meetings. Special meetings of the Board of Directors ("Special Meetings") shall be held at such times and places as shall be designated from time to time by the Chairman or, on the written request of any Director, by the Secretary or on the written request of the Board of Regents. Notice of Special Meetings shall be required.

Section 10. Notice of Meetings. The Secretary shall give notice of the time and place of each Annual, Joint, Regular and Special Meeting to each Director in person, or by mail, electronic mail, telegraph, or telephone, at least five (5) days before and not sooner than fifty (50) days before such meeting; provided, however, that in the case of a Special Meeting called because of an emergency or urgent necessity, notice will be provided as required by the Texas Open Meetings Act.

Section 11. Quorum. A majority of the then acting Directors shall constitute a quorum for the consideration of any matters pertaining to the Corporation's purposes. If at any meeting of the Board of Directors there is less than a quorum present, the Chairman may adjourn the meeting from time to time. The act of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law, the Articles of Incorporation, or these Bylaws.

Section 12. Voting. Directors must vote in person and proxy voting is prohibited.

Section 13. Conduct of Business. At meetings of the Board of Directors, matters pertaining to the Corporation's purposes shall be considered.

At all meetings of the Board of Directors, the Chairman of the Board shall preside, and in the absence of the Chairman of the Board, the Vice Chairman of the Board or the Vice Chairman for Policy shall preside. In the absence of the Chairman of the Board and the Vice Chairmen of the Board, a chairman shall be chosen by the Board of Directors from among the Directors present.

The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors, but in the absence of the Secretary, the Chairman may appoint any person to act as secretary of the meeting.

The chairman of any meeting of the Board of Directors shall determine the order of business and the procedure at the meeting, including, without limitation, conduct of the discussion and the order of business pursuant to a duly posted agenda.

Section 14. Compensation of Directors; Expenses. Persons serving as Directors shall not receive any salary or compensation for their services as Directors. A Director shall be entitled to reimbursement for reasonable expenses incurred by the Director in carrying out duties as a Director.

ARTICLE IV COMMITTEES

Section 1. Board Committees. The Board of Directors may from time to time designate members of the Board of Directors to constitute committees that shall have and may exercise such powers as a majority of the Board of Directors may determine in the resolution that creates the committee; provided, however, that the Board of Regents must approve the audit and ethics committee of the Corporation as required by applicable law and further provided that the full UTIMCO Board shall fully review, discuss, and approve performance compensation for UTIMCO officers and employees following careful consideration and due diligence. The Board of Directors may appoint individuals who are not members of the Board of Directors to any committee; provided, however, that a majority of the committee members shall be members of the Board of Directors if such committee exercises the authority of the Board of Directors in the management of the Corporation.

Other committees, not having and exercising the authority of the Board of Directors in the management of the Corporation, may be designated and members appointed by a resolution adopted by the Board of Directors. Membership of such committees may, but need not, be limited to Directors.

Any Director appointed to a committee designated by the Board of Directors shall cease to be a member of such committee when he or she is no longer serving as Director.

Section 2. Procedures; Meetings; Quorum. Any committee created by the Board of Directors or these Bylaws, unless otherwise expressly provided herein, shall (i) have a chairman designated by the Board of Directors, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board of Directors, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board of Directors at its next ~~succeeding meeting~~ Regular Meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or these Bylaws or by the Board of Directors.

The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee.

Section 3. Nominating Committee. The Chairman may appoint a Nominating Committee to make recommendations to him or her on positions as requested.

ARTICLE V OFFICERS

Section 1. Number, Titles, and Term of Office. The officers of the Corporation shall consist of a Chairman of the Board, a Vice Chairman for Policy, a Vice Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers and assistant officers as the Board of Directors may from time to time elect or appoint. Such other officers and assistant officers shall have such authority and responsibility as may be assigned to them by the Board of Directors. Any two (2) or more offices may be held by the same individual, except the offices of President and Secretary and the offices of Chairman and Vice Chairman. Except for those officers elected at the organizational meeting (the "Organization Meeting"), the term of office for each officer shall be until the next succeeding Annual Meeting at which officers are elected. The term of office for those officers elected at the Organization Meeting shall be that period of time beginning on the date of the Organization Meeting and ending on the date of the first Annual Meeting. In any event, a duly-elected officer shall serve in the office to which he or she is elected until his or her successor has been duly elected and qualified.

Section 2. Removal. Any officer or agent or member of a committee elected or appointed by the Board of Directors may be removed by the Board of Directors, but such removal shall be without prejudice to the contract rights, if any, of the individual so removed. Election or appointment of an officer or agent or member of a committee shall not of itself create contract rights.

Section 3. Vacancies. Any vacancy occurring in any office of the Corporation may be filled by the Board of Directors.

Section 4. Powers and Duties of the Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may be assigned to such officer in these Bylaws or from time to time by the Board of Directors. The Chairman of the Board shall be appointed by the Board of Directors. No Director shall serve more than three (3) full one-year terms as Chairman.

Section 5. Powers and Duties of the Vice Chairman of the Board. The Vice Chairman of the Board shall have such powers and duties as may be assigned to such officer in these Bylaws or from time to time by the Board of Directors and shall exercise the powers of the Chairman during that officer's absence or inability to act. Any action taken by the Vice Chairman in the performance of the duties of the Chairman shall be conclusive evidence of the absence or inability to act of the Chairman at the time such action was taken. The Vice Chairman of the Board shall be appointed by the Board of Directors. No Director shall serve more than three (3) full one-year terms as Vice Chairman.

Section 6. Powers and Duties of the Vice Chairman for Policy. The Chancellor of the System shall serve as Vice Chairman for Policy and shall coordinate those responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and System by the *Rules and Regulations* of the Board of Regents and the Master Investment Management Services Agreement with UTIMCO to facilitate UTIMCO's performance of its core investment duties. The Vice Chairman for Policy shall exercise the powers of the Chairman during the absence or inability to act of both the Chairman and the Vice Chairman of the Board. Any action taken by the Vice Chairman in the performance of the duties of the Chairman shall be conclusive evidence of the absence or inability to act of the Chairman and the Vice Chairman at the time such action was taken.

Section 7. Powers and Duties of the President. ~~The President shall be the Chief Executive Officer of the Corporation.~~ All references to the President in this document shall mean the Chief Executive Officer of the Corporation. If the positions of President and Chief Executive Officer are held by different individuals the responsibilities designated to the President in these Bylaws shall be performed by the Chief Executive Officer. Subject to the control of the Board of Directors, the President shall have general executive charge, management, and control of the properties, business, and operations of the Corporation with all such powers as may be reasonably incident to such responsibilities; shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness, and other obligations in the name of the Corporation subject to the approval of the Board of Directors and the Executive Committee, if any; and shall have such other powers and duties as may be designated in these Bylaws and as may be assigned to such officer from time to time by the Board of Directors pursuant to a duly approved Delegation of Authority Policy.

Section 8. Powers and Duties of the Treasurer. The Treasurer shall have custody of all of the Corporation's funds and securities that come into such officer's hands. When necessary or proper, the Treasurer may endorse or cause to be endorsed, in the name and on behalf of the Corporation, checks, notes, and other obligations for collection and shall deposit

or cause to be deposited the same to the credit of the Corporation in such bank or banks or depositories and in such manner as shall be designated and prescribed by the Board of Directors; may sign or cause to be signed all receipts and vouchers for payments made to the Corporation either alone or jointly with such other officer as may be designated by the Board of Directors; whenever required by the Board of Directors, shall render or cause to be rendered a statement of the cash account; shall enter or cause to be entered regularly in the Corporation's books to be kept by such officer for that purpose full and accurate accounts of all moneys received and paid out on account of the Corporation; shall perform all acts incident to the position of Treasurer subject to the control of the Board of Directors; and shall, if required by the Board of Directors, give such bond for the faithful discharge of such officer's duties in such form as the Board of Directors may require.

Section 9. Powers and Duties of the Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors in books provided for that purpose; shall attend to the giving and serving of all notices; in furtherance of the Corporation's purposes and subject to the limitations contained in the Articles of Incorporation, may sign with the President in the name and on behalf of the Corporation and/or attest the signatures thereto, all contracts, conveyances, franchises, bonds, deeds, assignments, mortgages, notes, and other instruments of the Corporation; shall have charge of the Corporation's books, records, documents, and instruments, except the books of account and financial records and securities of which the Treasurer shall have custody and charge, and such other books and papers as the Board of Directors may direct, all of which shall be open at reasonable times to the inspection of any Director upon application at the Corporation's office during business hours; and shall in general perform all duties incident to the office of Secretary subject to the control of the Board of Directors. The Secretary shall assure that current copies of the Corporation's Articles of Incorporation and Bylaws, Corporation Policies, Investment Policies approved by the ~~U. T.~~ Board of Regents, Committee Charters, and Minutes of all meetings of the Corporation and Committees are posted on the Corporation's website. The Secretary will assure that all open meetings of the Corporation are recorded and that recordings are available upon request.

ARTICLE VI MISCELLANEOUS PROVISIONS

Section 1. Fiscal Year. The Corporation's fiscal year shall be as determined from time to time by the Board of Directors.

Section 2. Seal. The Corporation's seal, if any, shall be such as may be approved from time to time by the Board of Directors.

Section 3. Notice and Waiver of Notice. Whenever any notice is required to be given by mail under the provisions of these Bylaws, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed postpaid wrapper addressed to the person or Board of Regents entitled thereto at such person's post office address, as such appears in the records of the Corporation, and such notice shall be deemed to have been given on the date of such mailing. A waiver of notice in writing signed by the person or persons entitled

to such notice, whether before or after the time stated therein, shall be deemed equivalent to notice.

Section 4. Public Information. The Board of Directors shall comply with applicable provisions of the Texas Public Information Act.

Section 5. Open Meetings. The Board of Directors shall conduct open meetings in accordance with Section 66.08(h), *Texas Education Code*. The Secretary is required to provide public notice of such meetings in accordance with applicable law therewith.

ARTICLE VII INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Right to Indemnification. Subject to any limitations and conditions in these Bylaws, including, without limitation, this Article VII, each person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a “Proceeding”), or any appeal of such a Proceeding or any inquiry or investigation that could lead to a Proceeding, by reason of the fact that he or a person of whom he is the legal representative, is or was a Director or officer of the Corporation, or while a Director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, shall be indemnified by the Corporation to the fullest extent authorized by the Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses (including, without limitation, attorneys’ fees) actually incurred by such person in connection with a Proceeding, but if the Proceeding was brought by or in behalf of the Corporation, the indemnification is limited to reasonable expenses actually incurred or suffered by such person in connection therewith, and indemnification under these Bylaws shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder. In no case, however, shall the Corporation indemnify any person, or the legal representatives of any person, with respect to any matters as to which such person shall be finally adjudged in any such Proceeding to be liable on the basis that personal benefit resulted from an action taken in such person’s official capacity, or in which such person is found liable to the Corporation. Any person entitled to indemnification pursuant to this Article VII is sometimes referred to herein as an “Indemnified Person.”

Section 2. Advance Payment. An Indemnified Person’s right to indemnification conferred in this Article VII shall include the right to be paid or reimbursed by the Corporation the reasonable expenses incurred by an Indemnified Person who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding; provided, however, that the payment of such expenses incurred by

an Indemnified Person in advance of the final disposition of a Proceeding shall be made only upon delivery to the Corporation of a written affirmation by such Indemnified Person of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification under this Article VII and a written undertaking by or on behalf of such Indemnified Person to repay all amounts so advanced if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified under this Article VII or otherwise.

Section 3. Appearance as a Witness. Notwithstanding any other provision of this Article VII, the Corporation may pay or reimburse expenses incurred by an Indemnified Person in connection with his or her appearance as a witness or other participation in a Proceeding at a time when the Indemnified Person is not a named defendant or respondent in the Proceeding.

Section 4. Nonexclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article VII shall not be exclusive of any other right which an Indemnified Person may have or hereafter acquire under any law (common or statutory), the Articles of Incorporation, the Bylaws, agreement, vote of disinterested Director or otherwise.

Section 5. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself or any Indemnified Person, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under this Article VII.

Section 6. Savings Clause. If this Article VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and hold harmless each Indemnified Person as to costs, charges and expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative to the full extent permitted by any applicable portion of this Article VII that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VIII AMENDMENTS

Section 1. Amendment. These Bylaws may be altered, amended, or repealed by the Board of Directors with the approval of the Board of Regents. A request by the Board of Regents to consider an alteration, amendment, or repeal of these Bylaws will be considered at the next regular meeting of the Corporation or at a special meeting called for that purpose.

7. **U. T. System Board of Regents: Approval of revised Master Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of The University of Texas Investment Management Company (UTIMCO) Board of Directors that the U. T. System Board of Regents (U. T. Board) approve the revised Master Investment Management Services Agreement (IMSA) effective February 7, 2008, as set forth in congressional style on Pages 116 - 133. These proposed revisions are on the agenda for approval by the UTIMCO Board of Directors on January 30, 2008, and will amend the IMSA that was approved February 9, 2006.

BACKGROUND INFORMATION

Proposed amendments are summarized as follows:

- Section 1(h): Conform titles of Investment Policies subject to U. T. Board approval and add internal UTIMCO policies not previously listed and/or adopted after February 9, 2006.
- Section 2(c): Delete requirement to consult with all Vice Chairmen on the draft UTIMCO Board agenda three weeks in advance of a UTIMCO Board meeting. This change is consistent with the current practice of reviewing the agenda only with the Chairman and the Chancellor, as the Vice Chairman of Policy.
- Section 3(a): Eliminate June 1st deadline for annual review of the Investment Policies.
- Schedule A: Delete the Short Intermediate Term Fund (SITF) and Institutional Index Funds from the list of funds managed.
- Change references to President throughout the document to Chief Executive Officer (CEO). This is consistent with current job titles.

MASTER INVESTMENT MANAGEMENT SERVICES AGREEMENT WITH UTIMCO

This Investment Management Services Agreement (this “Agreement”) by and between the Board of Regents (the “U. T. Board”) of The University of Texas System (the “U. T. System”) and The University of Texas Investment Management Company (“UTIMCO”), a Texas nonprofit corporation, is effective February ~~79~~, 20086 (the “Effective Date”), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO regarding the subject matter hereof.

RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional assets of the U. T. System and the assets of various trusts and foundations for which it serves as trustee, all of which assets are under the control and management of the U. T. Board;

WHEREAS, Section 66.08, *Texas Education Code*, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest assets under the control and management of the U. T. Board, as designated by the U. T. Board;

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 *et seq.*, for the express purpose of investing assets under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated assets under the control and management of the U. T. Board;

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated assets under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, *Texas Education Code*, as amended.

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

Section 1. Definitions.

- (a) **Affiliate** shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.
- (b) **Cash Reserves** shall mean cash on hand plus investments, plus prepaid expenses, less accounts payable, less other liabilities.
- (c) **Claims** shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.
- (d) **Custodian** or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safe-keep physical securities representing investment assets of any Fund and to perform the other functions listed in Section 5 hereof.
- (e) **Delegated Assets** shall mean those assets under the control and management of the U. T. Board that are invested in the Funds managed by UTIMCO hereunder, pursuant to the corresponding Investment Policies as such assets may be directed for investment by the U. T. Board or its designees from time to time pursuant to its Investment Policies or otherwise. The Delegated Assets may include, without limitation, the following funds or categories of assets:
 - (i) The Permanent University Fund established pursuant to Article VII, Section 11 of the Texas Constitution (the "Permanent University Fund" or "PUF"); provided that, for purposes of this Agreement and the delegation of investment management responsibilities hereunder, the PUF excludes the approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the PUF (the "PUF Lands"), as to which the U. T. Board retains complete investment management authority and responsibility;
 - (ii) Any and all funds or assets under the control and management of the U. T. Board as owner, administrator, contractual investment manager, or otherwise, including without limitation endowment funds and operating assets, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts (collectively, "U. T. System Funds");

- (iii) The assets of charitable remainder trusts, foundations and other separately invested assets for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries (“U. T. Board Trust Accounts”);
 - (iv) The permanent assets for health-related institutions established pursuant to Chapter 63, *Texas Education Code*, for which the U. T. Board is an administrator (collectively, the “Permanent Health Fund” or “PHF”);
 - (v) U. T. System Funds or U. T. Board Trust Accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF (collectively, “Separately Invested Funds” or “SIFs”); and
 - (vi) Institutional assets of third-party non-profit charitable foundations or tax-exempt charitable organizations to the extent dedicated to the support of the educational purposes of the U. T. System and under the control and management of the U. T. Board by contract (collectively, “Foundation Funds”).
- (f) **Funds** shall mean the separate investments or pools of assets in which the Delegated Assets are to be invested pursuant to the corresponding Investment Policies, as specified in Schedule A hereto and in the corresponding Investment Policies, each of which may be amended by the U. T. Board from time to time as provided for herein.
- (g) **Indemnified Parties** shall mean UTIMCO and any of its officers, directors, employees and agents.
- (h) **Investment Policies** shall mean the written investment policies determined and approved by the U. T. Board relating to the Funds, and all generally applicable written investment-related policies determined and approved by the U. T. Board that govern the management of investments for some or all Funds, such as the policies regarding ~~a~~Asset ~~a~~Allocation, ~~and the policies on~~ Derivatives ~~Investment~~, Liquidity, ~~Risk Measurement and Management, Valuation~~, and Error Correction ~~in Performance Presentation~~, but excluding internal UTIMCO operational guidelines as to which approval of the U. T. Board is not required, which include the UTIMCO ~~Mandate Categorization Procedure, Valuation Criteria for Alternative Assets, Calculating Liquidity Procedure~~, Soft Dollar Policy ~~and Procedures, Securities Lending Policy~~, and the Proxy Voting Policy (the Proxy Voting Policy being governed by the provisions of the individual Investment Policies related to proxy voting).
- (i) **Losses** shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys’, accountants’ and other professionals’ fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

- (j) **Surplus Cash Reserves** shall mean Cash Reserves on the last day of the fiscal year in excess of twenty-five percent (25%) of the upcoming fiscal year's operating and capital budgets approved by the U. T. Board.

Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

(a) **General**

The U. T. Board retains ultimate fiduciary responsibility and authority for all matters related to the investment of the Delegated Assets. Pursuant to that responsibility and authority, the U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Funds, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Funds in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as set forth in this Agreement and shall manage each Fund as a discretionary account.

(b) **Policy Matters**

The U. T. Board, as ultimate fiduciary for the Funds, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor to provide primary oversight and management concerning relations with the media, legal issues that implicate policies of the U. T. Board other than the Investment Policies, public disclosure of information and intergovernmental relations. Except for the forgoing matters, the UTIMCO Board of Directors and the ~~President~~CEO of UTIMCO shall be responsible for making all decisions necessary to implement the Investment Policies. The ~~President~~CEO of UTIMCO shall confer with the Chancellor on the above-mentioned matters where the Chancellor has primary oversight and management and on other matters that may implicate broader policies of the U. T. Board.

(c) **Meetings and Agendas**

- (i) The UTIMCO ~~President~~CEO shall consult with the Chairman ~~and the Vice Chairmen~~ of the UTIMCO Board, ~~including and~~ the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least three (3) weeks prior to each regular UTIMCO Board meeting.
- (ii) UTIMCO shall participate in an annual joint meeting of the UTIMCO Board of Directors and the U. T. Board as referenced in Art. III, § 7 of the UTIMCO Bylaws.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Funds:

(a) **Investment Policies:**

UTIMCO shall review current Investment Policies for each Fund at least annually ~~by June 1 of each year~~. Such review shall include distribution (spending) guidelines, long-

term investment return expectations and expected risk levels, ~~asset~~ Asset Class and Investment Type allocation targets and ranges ~~for each eligible asset class~~, expected returns for each ~~asset class~~ Asset Class and Investment Type and fund, designated performance benchmarks for each ~~asset class~~ Asset Class and Investment Type and such other matters as the U. T. Board or its staff designees may request. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff for review and appropriate action, following the established schedule for the submission of proposed agenda topics for meetings of the U. T. Board.

(b) **Investment Management:**

UTIMCO shall oversee the investment management process pursuant to the Investment Policies. Such oversight shall include without limitation the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each ~~asset class~~ Asset Class and Investment Type within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each ~~asset class~~ Asset Class and Investment Type.

(c) **Investment Performance:**

UTIMCO shall monitor and report on investment performance for each of the Funds. With respect to all Funds other than the SIFs, such responsibilities shall include the calculation and evaluation of investment returns for each ~~asset class~~ Asset Class and Investment Type and individual Fund portfolio against approved benchmarks over various periods of time, and the periodic review of performance benchmarks. With respect to all Funds, such responsibilities shall also include the reporting of investment performance of such specific Funds as may be requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

(d) **Operations:**

UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all Funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Funds.

(e) **Maintenance of and Access to Books and Records:**

UTIMCO shall maintain the books and records for each Fund on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Fund.

The books and records of the Funds and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by authorized representatives of U. T. System. UTIMCO shall provide full audit access to any and all information concerning the operations of UTIMCO, including information

necessary to review UTIMCO expenditures for compliance and reasonableness with the approved budget, to auditors representing the U. T. Board and/or the State Auditor.

(f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, UTIMCO shall provide all compliance-related information, reports and certifications, and shall cause the ~~chief executive officer~~ CEO and the chief financial officer of UTIMCO to provide such certifications, as may be specified by the U. T. Board and U. T. System compliance policies and procedures adopted or approved by the U. T. Board. UTIMCO will follow the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional Compliance, as it may be amended from time to time, including providing the U. T. Board or its designees with quarterly compliance reports.

(g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Funds, UTIMCO shall disclose to the public with respect to such private investments all information required to be disclosed pursuant to Section 552.0225 of the *Texas Government Code* regarding “Right of Access to Investment Information” (“private investment information”). UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO have clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the ~~President~~ CEO of UTIMCO shall notify the U. T. System Vice Chancellor and General Counsel and solicit his or her input to the process. UTIMCO shall disclose the information unless (i) it is confidential and excepted as provided in Section 552.143 of the *Texas Government Code* regarding “Confidentiality of Certain Investment Information,” or (ii) as to any other information, the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas. In addition, the U. T. Board reserves the right and authority, in its sole discretion, to disclose, or direct the disclosure of, any information at any time, to the extent such disclosure would not result in a violation of applicable law or breach or result in a default under any agreement binding upon UTIMCO or the U. T. Board.

In addition to and not in lieu of the foregoing, UTIMCO will comply with the provisions of Section 12 below regarding confidentiality provisions of contracts with third parties.

(h) **Other Services:**

UTIMCO shall perform other investment management services, including without limitation:

- (i) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time;

- (ii) rendering services to managers of private equity investments in which UTIMCO has decided to invest;
- (iii) attending meetings of governing bodies of companies in which assets of Funds have been invested pursuant to this Agreement;
- (iv) voting of securities (or proxies with respect thereto) held as investments of the Funds in accordance with the Investment Policies and the UTIMCO Proxy Voting Policy and any other relevant written policies or rules of the U. T. Board;
- (v) providing U. T. System institutions with annual endowment reports reflecting, among other things, changes in the investment value of such institution's endowment and distributions made to such institution to support the activities for which the endowment was established;
- (vi) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing assets to authorized beneficiaries;
- (vii) effecting distributions directly or through the Custodian to U. T. System institutions or other named beneficiaries from the Funds;
- (viii) supporting and maintaining online information systems for endowment funds;
- (ix) providing training and education to members of the UTIMCO Board of Directors as may be determined in consultation with U. T. System staff to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the directors, including current regulations for determining reasonable compensation, are outlined and discussed fully; and
- (x) any other services necessary to provide investment management of the Funds.

Section 4. Investment Manager as Fiduciary.

UTIMCO acknowledges that it acts as a fiduciary in its management of the investments of the Funds pursuant to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Funds as a result of investments made pursuant to the Investment Policies and applicable law, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of, any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

Section 5. Custody of Assets.

UTIMCO shall select one or more Custodians, each of which shall be approved by the U. T. Board, which shall also enter into or approve each agreement with the Custodian(s).

UTIMCO shall use the Custodian(s) for safekeeping, settlement of security purchases, sales, collection of income and other duties, as may be more fully described in the relevant agreement(s) between the Custodian(s) and the U. T. Board or UTIMCO (as agent of the U. T. Board). In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Funds and to perform other duties, subject to any restrictions in the relevant Investment Policies.

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

(a) Annual Budget and Management Fee:

(i) Budget Approval Policy

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an “Annual Budget”) within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Funds. The Annual Budget shall also include an annual UTIMCO management fee (an “Annual UTIMCO Management Fee”) which shall include all operating expenses associated with the general management of the Funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder. In addition to its Annual Budget, UTIMCO shall annually submit its capital expenditures budget approved by the UTIMCO Board of Directors to the U. T. Board for approval.

(ii) Allocation Formula

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Funds. Items proposed in the Annual Budget and the allocation formula may be approved, disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration.

(iii) Charging of Funds for Management Fee

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Fund with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO may, with the approval of the U. T. Board, revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

(iv) Payment of Third Party Vendors

UTIMCO is hereby authorized to pay from each Fund direct expenses incurred for portfolio management, Custodian, auditing, and other services which are performed by external vendors specifically for each Fund.

(b) Cash Reserves:

Within 90 days after the end of each fiscal year, UTIMCO will distribute back to the Funds which generated the surplus that portion of the Surplus Cash Reserves as may be directed by the U. T. Board, in its sole discretion, from time to time. Such distribution back to the Funds shall be in the same proportion that the Funds contributed to the Cash Reserves.

(c) UTIMCO Management Service on Outside Boards:

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

(d) Fees for Services Rendered:

Members of UTIMCO management may perform services for which UTIMCO receives a fee (“Service Fees”) from investment promoters or investee companies in consideration of the UTIMCO staff’s private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees (“Capital Fees”) accruing or inuring to the capital invested on behalf of the Funds managed by UTIMCO. Such Capital Fees shall be credited to the Funds from which such investments are funded.

(e) Miscellaneous Fees:

UTIMCO management may perform specialized services for assets that are separately invested for which UTIMCO receives a fee from the Fund. These fees primarily relate to maintenance of computer programs for the SIFs. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

Section 8. Brokerage Commissions.

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Funds; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO or any of its officers, directors or employees. All orders for Fund transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO may, from time to time in accordance with applicable law and UTIMCO’s Soft Dollar Policy and Procedures, pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Funds.

Section 9. Valuation of Fund Assets.

The valuation of each Fund shall be determined in accordance with the Investment Policies approved by the U. T. Board for such Fund.

Section 10. Representations and Warranties of Parties.

- (a) The U. T. Board represents and warrants that:
- (i) The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized, and this Agreement constitutes a valid and binding agreement of the U. T. Board.
 - (ii) There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental

department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

- (iii) The U. T. Board has approved:
 - (A) the Articles of Incorporation and Bylaws of UTIMCO;
 - (B) the Investment Policies;
 - (C) the Audit and Ethics Committee of UTIMCO; and
 - (D) the Code of Ethics of UTIMCO.

- (b) UTIMCO represents and warrants that:
 - (i) The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized and this Agreement constitutes a valid and binding agreement of UTIMCO.
 - (ii) There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

- (c) Investment Company Act and State Securities Act:

The parties to this Agreement acknowledge and agree that UTIMCO is not currently required to, and shall not engage in any activities that would require it to, register as an “investment company” under Title 15 *United States Code* Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 *et seq.* (The Securities Act).

Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements.

In the performance of this Agreement, UTIMCO shall abide by, and cause its directors, officers, and employees to abide by, the following policies:

- (A) UTIMCO Code of Ethics as approved by the U. T. Board;
- (B) UTIMCO Bylaws as approved by the U. T. Board;
- (C) All UTIMCO policies;
- (D) Applicable portions of the U. T. Board’s *Rules and Regulations*; and
- (E) All U. T. Board-approved Investment Policies, resolutions, and applicable law.

Financial advisors and service providers as defined in *Texas Government Code* Section 2263.002 shall comply with the disclosure requirements contained in *Texas Government Code* Section 2263.005, in addition to any obligations regarding disclosure of private investment information and the like as contemplated by Section 3(g) of this Agreement.

Section 12. Contracts with Third Parties.

UTIMCO covenants and agrees that each agreement, contract, or understanding it enters into with any third party will comply with all applicable law (including without limitation *Texas Government Code* Sections 2263.002 and 2263.005 as referenced in Section 11 above), and will not contain any term or provision limiting the ability of UTIMCO, the U. T. Board, the U. T. System, or any of its institutions to comply with any provision of applicable law, including without limitation any covenant regarding non-disclosure of confidential information or similar subject matter that would purport to limit the ability of UTIMCO or the U. T. Board to comply with any provision of the Texas Public Information Act or other law regarding public disclosure; provided that any contract provision regarding non-disclosure of confidential information must be approved by the Vice Chancellor and General Counsel of the U. T. System or his/her designee.

UTIMCO further covenants and agrees that it will not enter into any contracts indemnifying or holding harmless any third party to a greater extent than the scope of the indemnification of the Indemnified Parties by the U. T. Board without the prior consent and approval of the Vice Chancellor and General Counsel of the U. T. System.

Section 13. UTIMCO's Open Meeting Policy.

Except as otherwise provided in Section 66.08, *Texas Education Code*, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the *Texas Government Code*.

Section 14. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, *Texas Education Code*, UTIMCO shall not engage in any business other than managing the Funds under this Agreement.

Section 15. Termination.

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to the effective date of termination, subject to UTIMCO's Articles of Incorporation and Bylaws and applicable law.

Section 16. Amendments.

No amendment hereto shall be effective unless executed by duly authorized representatives of each party in the same manner as this Agreement.

Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered, sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the other party at the following addresses which may be changed by notice sent in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System
Attn: General Counsel to the Board of Regents and Secretary
201 West Seventh Street, Suite 820
Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company
Attn: ~~President and~~ CEO and Chief Investment Officer
401 Congress Avenue, Suite 2800
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1660

Section 18. Non-Assignability.

This Agreement is personal to the parties hereto, and no assignment of this Agreement by UTIMCO, whether by contract, merger, consolidation, or operation of law, shall be made other than with the prior written consent of the U. T. Board and in compliance with applicable law.

Section 19. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20. Indemnification.

(a) Agreements to Indemnify:

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction

from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

(b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

(c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

(d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel following due notice, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

(e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with

the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

(f) Survival; Right to Enforce:

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

Section 21. Claims By and Against Managed Assets.

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the U. T. Board or any Fund from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor, and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board, any Fund, or any associated assets, or to settle contested claims or litigation that may result in receipt of less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate U. T. System officials, as set out in the Regents' *Rules and Regulations*.

Section 22. Communications.

UTIMCO and the U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the ~~President and~~ CEO of UTIMCO.

Section 23. Authority to Purchase, Exchange, and Sell Securities.

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the U. T. Board, or in any other form of registration of such securities held for the account of the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment

managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

Section 24. Authority to Assign and Transfer Securities.

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the U. T. Board, or in any other form of registration of such securities held for the account of the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, Custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

Section 25. No Third Party Beneficiaries.

UTIMCO and the U. T. Board each agree that there are no third party beneficiaries of this Agreement.

Section 26. Governing Law.

This Agreement and all matters arising under or related to it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

Date: _____

By _____
Chairman

THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY

Date: _____

By _____
Chairman

Schedule A

Funds

This Schedule A setting forth the Funds managed by UTIMCO pursuant to this Agreement as fiduciary on behalf of the U. T. Board, in which the Delegated Assets are to be invested as directed by the U. T. Board pursuant to its Investment Policies, may be amended from time to time by the U. T. Board in consultation with UTIMCO to add or remove Funds, change fund allocations, reflect revisions to the corresponding Investment Policies, or otherwise. The Funds covered under this Agreement as of the Effective Date of this Agreement, and the corresponding Investment Policies, are as follows:

- a. **Permanent University Fund**: The PUF (as defined in Section 1(e)(i)) will be separately invested in accordance with the PUF Investment Policy Statement.
- b. **Permanent Health Fund**: The PHF (as defined in Section 1(e)(iv)) will be separately invested in accordance with the PHF Investment Policy Statement.
- c. **Separately Invested Funds**: The SIFs (as defined in Section 1(e)(v)) will be separately invested in accordance with the SIF Investment Policy Statement.
- d. **Long Term Fund (“LTF”)**: The long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of institutions of the U. T. System, with investments made in accordance with the LTF Investment Policy Statement.
- e. **General Endowment Fund (“GEF”)**: The pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each Fund’s investment policy statement, and the GEF funds will be invested in accordance with the GEF Investment Policy Statement.
- ~~f. **Short Intermediate Term Fund (“SITF”)**: Selected U. T. System Funds (as defined in Section 1(e)(ii)) (other than endowment and other long term funds, including the Permanent University Fund) designated from time to time by the U. T. Board or its U. T. System staff designees will be collectively invested in the short intermediate term pooled investment fund governed by the SITF Investment Policy Statement.~~
- g.f. Short Term Fund (“STF”)**: Selected U. T. System Funds designated from time to time by the U. T. Board or its U. T. System staff designees will be invested in the STF, which is the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds, in accordance with the STF Investment Policy Statement.

~~**h. Institutional Index Funds:** The Institutional Index Funds currently comprise the following two index Funds:~~

~~(i) **The U.S. Debt Index Fund B**, a U.S. debt index fund which replicates the Lehman Brothers Aggregate Bond Index fund and is currently managed by Barelays Global Investors (BGI) for UTIMCO.~~

~~(ii) **The Equity Index Fund B**, an equity index fund which replicates the S&P 500 index and is currently managed by BGI for UTIMCO.~~

~~**i.g. The Intermediate Term Fund (“ITF”):** The ITF was established by the U. T. Board as a pooled fund for the collective investment of operating assets and other intermediate and long-term assets held by U. T. System institutions and U. T. System administration. The ITF will be invested in accordance with the ITF Investment Policy Statement.~~

8. **U. T. System Board of Regents: Adoption of Nineteenth Supplemental Resolution authorizing Revenue Financing System Bonds in an amount not to exceed \$950,000,000; authorization to complete all related transactions; and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt the Nineteenth Supplemental Resolution to the Master Resolution, containing terms in substantially the form approved by the Board of Regents on November 13, 2003, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Bonds in one or more installments in an aggregate principal amount not to exceed \$950,000,000 for the purpose of refunding a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A; to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program (CIP); to current or advance refund certain outstanding Revenue Financing System Bonds to produce present value debt service savings; and to pay the costs of issuance and any original issue discount; and
- b. authorize appropriate officers and employees of the U. T. System as set forth in the Nineteenth Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents, within the limitations and procedures specified therein, to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such Bonds.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the U. T. System Board of Regents on February 14, 1991, amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as required by Section 5 of the Master Resolution, the U. T. System Board of Regents resolves that

- a. sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System; and

- b. the institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt.

BACKGROUND INFORMATION

On February 14, 1991, the U. T. System Board of Regents adopted a Master Resolution establishing the Revenue Financing System (RFS) to create a cost-effective, System-wide financing structure for institutions of the U. T. System. Since that time, the Board has adopted 18 supplemental resolutions to provide debt financing for projects that have received the requisite U. T. System Board of Regents and Texas Higher Education Coordinating Board approvals.

On August 23, 2007, the Board of Regents approved the Eighteenth Supplemental Resolution authorizing \$675 million of RFS bonds for Fiscal Year 2007. Adoption of the Nineteenth Supplemental Resolution (Resolution) is necessary to provide bonding capacity for the remainder of Fiscal Year 2008 because the U. T. System Office of Finance was unexpectedly able to advance refund \$319 million of RFS Bonds, Series 2003B and Series 2004D bonds in December 2007, producing \$30.2 million of present value savings, or 9.5% of the refunded bonds.

This Resolution would also authorize the refunding of certain outstanding RFS Bonds provided that an advance refunding exceed a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing. The particular bonds to be refunded will be called for redemption on the first practical optional redemption date for each series of refunded bonds occurring after the delivery of the refunding bonds.

The Resolution authorizes refunding a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, refunding certain outstanding RFS Bonds for savings, and new money to fund construction and acquisition costs of projects in the CIP. Generally, commercial paper debt is issued to fund projects during the construction phase and the debt is not amortized. Once construction is complete, the commercial paper is refunded with bonds. Depending on the level of interest rates at the time of pricing, outstanding commercial paper and new money for construction may be financed with long-term debt.

In addition, the Resolution authorizes remarketing, tender, auction, and broker-dealer agreements customarily utilized in connection with the types of variable rate instruments authorized.

The proposed Nineteenth Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The Nineteenth Supplemental Resolution and forms of auction agreement and broker-dealer agreement contain terms that are substantially the same as those contained in the Thirteenth through Eighteenth Supplemental Resolutions and forms of auction agreement and broker-dealer agreement previously approved by the Board on November 13, 2003, for use as standard agreements. These documents have not been included as part of the Agenda materials, but are available upon request.

9. **U. T. System: Adoption of Resolution to Zurich American Insurance Company and affiliates, Schaumburg, Illinois, to guarantee payments under Phase V of The University of Texas System's Rolling Owner Controlled Insurance Program (ROCIP)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Executive Vice Chancellor for Health Affairs that the resolution set forth below to Zurich American Insurance Company and affiliates, Schaumburg, Illinois, be adopted to guarantee payments under Phase V of The University of Texas System's Rolling Owner Controlled Insurance Program (ROCIP).

RESOLUTION

WHEREAS, Zurich American Insurance Company and affiliates (Zurich) will insure The University of Texas System (U. T. System) and other persons under Phase V of a Rolling Owner Controlled Insurance Program (ROCIP) for various construction projects managed by the Office of Facilities Planning and Construction;

WHEREAS, Pursuant to this ROCIP, Zurich will issue one or more workers' compensation insurance policies and comprehensive general liability insurance policies that contain deductibles of \$250,000 per claim subject to a maximum of \$375,000 per occurrence that include allocated costs and indemnity payments; however, such deductibles are subject to aggregate limits of \$12,500,000 for the ROCIP; and

WHEREAS, The U. T. System Board of Regents understands and agrees that this large deductible ROCIP requires the prompt reimbursement of sums advanced by Zurich to adjust or pay claims within the deductibles, and the Board desires to guaranty to Zurich the prompt reimbursement of the deductibles for the ROCIP.

NOW THEREFORE, BE IT RESOLVED, That the Board hereby guarantees to Zurich the prompt repayment of the sums advanced by Zurich to adjust or pay claims within the deductibles for the ROCIP, subject to the aggregate deductible limits for the Program. This guaranty shall remain fully binding although Zurich may waive one or more defaults of the insured or fail to exercise any rights against the insured or modify one or more terms of the ROCIP as required by law or with the consent of the U. T. System; and, be it further

RESOLVED, That the Board represents and warrants to Zurich that the funds necessary to reimburse Zurich for the aggregate deductible liability of the insured for the ROCIP are included in the appropriations for the project heretofore approved by the Board.

BACKGROUND INFORMATION

In 1994, the U. T. System Board of Regents adopted a resolution making a guaranty to Argonaut Southwest Insurance Company (Argonaut), Menlo Park, California, pertaining to the Owner Controlled Insurance Program (OCIP) for the Bertner Complex construction project at U. T. M. D. Anderson Cancer Center. This innovative program provided insurance coverage for the prime contractor and subcontractors for general liability, workers' compensation, excess liability, and builder's risk. The savings to the project as a result of purchasing insurance in this manner were in excess of \$1 million.

In 1997, with the success of the Bertner Complex OCIP, the U. T. System Board of Regents approved a similar resolution to Argonaut. The U. T. System decided to expand this program to include numerous construction projects at several U. T. System institutions. The ROCIP provided similar coverage for 19 projects totaling over \$200 million in construction values. The projected savings as of July 2007 are approximately \$1.6 million, but fluctuate depending on open claim activity.

In April 1999, the U. T. System began ROCIP Phase II, which extended the program for 22 projects totaling \$287 million in construction values. On February 10, 2000, the U. T. System Board of Regents adopted a resolution to satisfy the security requirement for ROCIP Phase II. The projected savings for this phase as of July 2007 are \$2.6 million, but fluctuate depending on open claim activity.

ROCIP Phase III began in July 2000 and included an additional 28 projects totaling \$1.1 billion in construction values. On August 10, 2000, the U. T. System Board of Regents adopted a resolution to satisfy the security requirements for ROCIP Phase III. The projected savings for this phase as of July 2007 are approximately \$3.6 million, but fluctuate depending on open claim activity.

Beginning in January 2004, Zurich American Insurance Company and affiliates provided Workers' Compensation and General Liability insurance for approximately 53 projects totaling approximately \$1.5 billion in construction values. If past savings are an indicator, the U. T. System anticipates that the savings for ROCIP IV will be significant.

ROCIP Phase V began in January 2008. Zurich was selected through a competitive process to provide Workers' Compensation and General Liability insurance for ROCIP Phase V. It is estimated that a minimum of \$800 million in construction values will be included in ROCIP Phase V over the next five years. The aggregate deductible limits are based on estimated payrolls for \$800 million in construction values. If payrolls exceed the estimate, the aggregate deductible limits may need to be increased.

The proposed resolution provides Zurich with assurances necessary to complete the ROCIP Phase V program. The proposed resolution will be provided to Zurich in lieu of a letter of credit, trust agreement, or cash.

10. U. T. System: Report on the Supply Chain Alliance Strategic Initiative

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, and Mr. Richard St. Onge, Assistant Vice Chancellor for Health Affairs, will report on the Supply Chain Alliance Strategic Initiative.

REPORT

Under the leadership of Mr. Richard St. Onge, this initiative has its beginnings in an advisory group formed in March 2006. It is currently a shared services purchasing and strategic sourcing project for the six health institutions. A pilot project was successfully completed, an Executive Committee (chaired by Dr. Kelley) and a Steering Committee (chaired by Mr. St. Onge) were created, and a detailed financial pro forma has been approved. The shared purchasing operation is located at U. T. M. D. Anderson Cancer Center, will be funded with an administrative fee paid by the suppliers, and is projected to create savings of at least \$5 million annually.

Supplemental Materials:

- **PowerPoint presentation on Pages 145 - 154 of Volume 2.**
- **Fisher Scientific Contract Highlights on Page 155 of Volume 2.**

B. CONVENE JOINT MEETING WITH AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE

11. **U. T. System: Report on the Fiscal Year 2007 Annual Financial Report, including the report on the U. T. System Financial Statement audit work performed by institutional and U. T. System Administration internal audit**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor, Controller and Chief Budget Officer, will discuss the 2007 Annual Financial Report (AFR) highlights.

Mr. Charles Chaffin, Chief Audit Executive, will report on the financial audit work performed on the U. T. System Financial Statements by internal audit System-wide.

The U. T. System Consolidated Financial Statements for the Years Ended August 31, 2007 and 2006 includes the Management's Discussion and Analysis that provides an overview of the financial position and activities of the U. T. System for the year ended August 31, 2007.

Supplemental Materials:

- **Mr. Wallace's PowerPoint presentation on Pages 156 - 173 of Volume 2.**
- **Mr. Chaffin's PowerPoint presentation on Pages 174 - 178 of Volume 2.**
- **Annual Financial Report on Pages 179 - 263 of Volume 2.**

BACKGROUND INFORMATION

The Annual Financial Report is required to be filed with the State Comptroller of Public Accounts annually on November 20 and is prepared in compliance with *Texas Government Code* Section 2101.011, requirements established by the State Comptroller of Public Accounts and Governmental Accounting Standards Board (GASB) pronouncements.

On April 16, 2007, the U. T. System Board of Regents expressed confidence in the financial audit work that could be performed by the institutional and U. T. System auditors. As a result of that decision, the System Audit Office developed a plan to oversee and coordinate the internal audit of the U. T. System consolidated Financial Statements for the fiscal year ended August 31, 2007.